

Worsted mill to close as demand falls

BY RHYS DAVID, TEXTILES CORRESPONDENT

ILLINGWORTH MORRIS, the Yorkshire wool textile group, is to close one of its fine worsted mills in Huddersfield with a loss of around 350 jobs, partly as a result of weak overseas demand following the rise in the value of sterling.

The company, Britain's biggest wool textile group with a labour force of about 9,000 is concentrating production of its Huddersfield fine-worsted subsidiary at Kirkstall, and is closing its Trafalgar mill at Huddersfield. The two mills employ about 760 people, including part-time workers. About 400 will be retained after the Trafalgar closure, which is to be phased over the next 12 months.

Fashion trends

The strength of sterling has hit demand for worsteds in two of the company's most important markets — the U.S. and Japan. Fashion trends over the past year have also swung away from worsteds — the UK industry's main speciality. This, too, has caused a sharp drop in sales on most markets.

In the first three months of the year, overseas sales of woollens were up in volume from 5.9m to 6.5m sq metres, but worsteds

Restrictions

In response to pressure from the industry, new restrictions on imports of woollens — combed wool for processing into yarn — from South America were announced last week. The Department of Trade said quotas had been negotiated by the EEC Commission on imports of tops from Uruguay.

A similar restriction on imports of tops from Brazil was imposed on August 1. This will limit them to 104 tonnes during the rest of this year, rising to 568 tonnes in 1982. The EEC is also imposing quotas on imports from Poland into the UK of men's and boys' jackets. These have risen from 39,000 in 1977 to 97,000 in the first half of this year. The permitted limit for the whole of this year will now be 120,000 units.

Small firms report criticised

Financial Times Reporter

THE CONCLUSION of the Wilson Committee on financial institutions that there is no "systematic bias" against small firms in the UK financial system is rejected today by the Association of Independent Businesses.

In an assessment of the committee's interim report published earlier this year, the association says such a bias exists. "If the fortunes of the independent business sector are to be improved, that financial bias needs to be acknowledged." The association, which claims to speak for 25,000 companies, including a quarter of those with a turnover of more than £1m, makes a plea for the Wilson Committee to make better use of the abundance of evidence and research material available to it. Otherwise, "a valuable opportunity to examine ways of helping the British economy out of its present predicament will have been lost."

The association stresses that taxation is important in any consideration of the finances of small and independent businesses. It suggests that, if an analysis of taxation has not been possible because of the Wilson Committee's terms of reference, "perhaps the Government could consider changing the committee's ground rules so as to expedite the work."

It welcomes the proposal to permit UK companies to buy back their own shares, and supports Wilson's interest in a new kind of small firm investment company and loan guarantee schemes.

Tobacco cash lottery decision challenged

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

IMPERIAL TOBACCO'S "Spot Cash" instant lottery promotion for some king-sized cigarettes is again to be legally challenged.

The Attorney-General will ask the House of Lords to reverse an Appeal Court decision last March which declared the Imperial lottery promotion lawful in every respect. The Lords is not expected to consider the appeal until next January at the earliest.

The Lords' judgment will be significant for the future use of instant lottery promotions in a number of consumer product areas as well as grocery retailing.

Imperial has already relaunched the "Spot Cash" promotion, which offers smokers the chance to win cash prizes of £1 to £5,000. The cigarette packets include cards with several "windows" which, when rubbed with a coin, reveal whether a prize has been won.

The Attorney-General's decision to challenge the promotion is the latest move in a long-running dispute over the scheme's legality. Imperial launched the promotion last autumn for three John Player brands. Sales increased by about a third and a 50 per cent jump in market share followed.

British-American Tobacco — a major competitor — complained to the Attorney-General that the scheme contravened legislation governing lotteries. The matter was passed to the Director of Public Prosecutions who decided to initiate criminal proceedings against several Imperial executives.

Imperial sought a civil court ruling that the scheme was lawful and the criminal prosecutions should not go ahead. Although the High Court refused to make such a ruling, the Appeal Court ruled that the lottery was lawful. Lord Denning criticised the DPP for acting "out of hand."

The criminal proceedings have been dropped now that the issue is to be decided by the Lords.

Although the "Spot Cash" promotion has been relaunched, it does not appear to be enjoying as much success as previously. Imperial still, however, retains its overall leadership in the cigarette market, especially for the fast-growing king-size sector, which now accounts for six out of every 10 cigarettes sold. Imperial has some 45 per cent of the king-size market, followed by Gallaher with about 30 per cent and Carreras Rothmans with 19 per cent.

Telephone workers likely to go back after offer

BY OUR LABOUR STAFF

MEMBERS OF the Civil and Public Services Association involved in the Post Office telephone dispute are believed to have voted for a return to work after a pay offer averaging 17.20 per cent.

The executive of the Society of Civil and Public Servants meets today to decide whether to recommend an improved offer to their technical and supervisory staff, who operate computer centres at Harmondsworth and Leeds.

But an official of the society's Post Office Data Processing branch said yesterday that tele-

phone hills could still be delayed. Although management expected the CPSSA to end its 15-week strike, members of the SCPS were continuing their 18-week strike.

Without 80 key technical and supervisory staff who were in the SCPS, it would be impossible to restore effective computer services," he claimed.

Mr Gordon Blair, vice chairman of the branch said yesterday: "Hopes of a resumption of work in computer centres on Monday are merely wishful thinking."

SCPS members had rejected the 17.20 per cent offer, and were prepared to continue the strike "for much longer."

The cost of sending a first-class letter goes up today from 5p to 10p. Second-class mail rises by 1p to 8p.

The new tariff could be the last to be introduced without consumer consultation. The Post Office Users' National Council is to meet the Post Office and Government representatives soon to discuss setting up a "continuing dialogue" on postal charges.

Court staff in strike vote today

AN IMMEDIATE strike that might disrupt the working of London's magistrates courts might be decided today at a meeting of nearly 500 administrative staff.

They will be told that the Home Office has rebuffed their attempt to secure rises of up to 30 per cent by declining to discuss the claim.

The staff, members of the Society of Civil and Public Servants and the Civil and

Public Services Association, have refused a 9.4 per cent offer and are pursuing their demand to bring their pay-level into line with that of civil servants. The meeting will be at Caxton Hall, London.

Ten days ago, members of both unions agreed to strike in a fortnight.

Mr Bernard Studd, the society's national officer said: "I can produce a case of appalling industrial relations

which can only be designed to produce industrial ferment and to encourage our members to take strike action."

Mr Alastair Graham, the association's deputy general secretary, said: "Members will be very bitter that a meeting has not taken place."

Any strike could be spread outside London by the Association of Magisterial Officers, representing 4,000 staff, battling maintenance payments and the issuing of summonses.

Retirement bond sales top £1bn

BY TIM DICKSON

ALL-TIME sales of the National Savings Movement's index-linked retirement certificates reached the £1bn landmark last month. Receipts in July of £27.6m from the issue contributed to a net inflow into the National Savings coffers of £26.6m, or £72.5m, including accrued interest.

Net receipts for the month from the retirement certificates, which must be held for at least a year, and which are available only to men over 65 and women over 60, were the best so far this year. In the first four months of the 1979 financial year, they were more than

double the figure of the comparable period last year.

Receipts from the retirement issue are likely to be healthy this month, since anyone who buys them by August 31 will get the benefit of July's record rise of 4.3 per cent in the retail price index. Under the rules, the index figure to which the issue is linked is always two months behind the month when the purchase is made.

Elsewhere, the July picture was not so bright. Fixed-interest National Savings certificates, including the 18th issue, brought in a net £8.4m of new money, but premium savings bonds were disappointing with

repayments of £10.1m just exceeding receipts of £10m. That is the first time for five years that provisional figures have shown a net decrease.

Holiday spending was thought to be responsible for the £12.3m outflow from the National Savings Bank ordinary account, while the investment account, which had a net increase of £8.7m, is expected to benefit from the new higher annual interest rate of 12 1/2 per cent to be introduced next month.

The total sum administered by the Department for National Savings has now exceeded £12bn.

Storm in teacup over Britain's favourite drink

BY OUR CONSUMER AFFAIRS CORRESPONDENT

THE BRITISH tea and coffee industries, together worth more than £575m at retail prices, are locked in a marketing battle over which drink will prove more popular in the 1980s.

Although tea is acknowledged as still being the favourite British beverage, coffee processors say that the trend is towards drinking more coffee. The industry says that, although 10 years ago, seven cups of tea for every one of coffee were drunk, the ratio has fallen to 2.5 cups of tea for every one of coffee.

However, the Tea Council points out that while 51 per cent of households buy coffee

each month, 84 per cent still buy tea regularly. Coffee, although more expensive than tea, has annual sales of £225m, compared with £350m for tea.

Tea sales, the industry says, have recovered from a decline of a few years ago caused by rising commodity prices, to become more popular again. The future lies with teenagers and people in their 20s who will form the bulk of the beverage market over the next two decades.

Many young people consider tea an old-fashioned drink, although the tea industry has just spent £1m on an advertising campaign to persuade them otherwise.

IN BRIEF

FOUR HUNDRED engineers who have been on strike at the Perkins diesel engine plant, Peterborough, for a fortnight, will vote at a mass meeting today on whether to stay out. Over 4,000 production workers have already been laid off.

The National Executive of the National Union of Journalists has urged the Government to refer the takeover of the Long Eaton Advertiser and its associated weeklies by the Nottingham Evening Post group to the Monopolies Commission. The union says it would mean "a considerable local monopoly" and dangers to employment of journalists because of management policies of the Nottingham Evening Post.

Many readers in the South were without a copy of the paper yesterday. More than 1m copies of later editions were lost when a dispute involving machine-room workers stopped production at 2.30 am.

Perk cuts anger unions

GOVERNMENT PLANS to crackdown on perks — starting with the company car — will face violent trade union opposition, Mr Terry Duffy, engineering union president warned yesterday.

"It is apparent to me that the Government seems to be hell-bent on making decisions without pre-notification or consultation with the trade union movement, and that makes us collision-bound," he said in a BBC radio interview.

"I should imagine the trade unions will be reacting violently to these proposed cuts."

There were many industries where employees received a benefit as a condition of employment. If that benefit were taken away, Mr Duffy imagined an "angry reaction" from workers.

As the representative of hundreds of car workers, he forecast that Government action

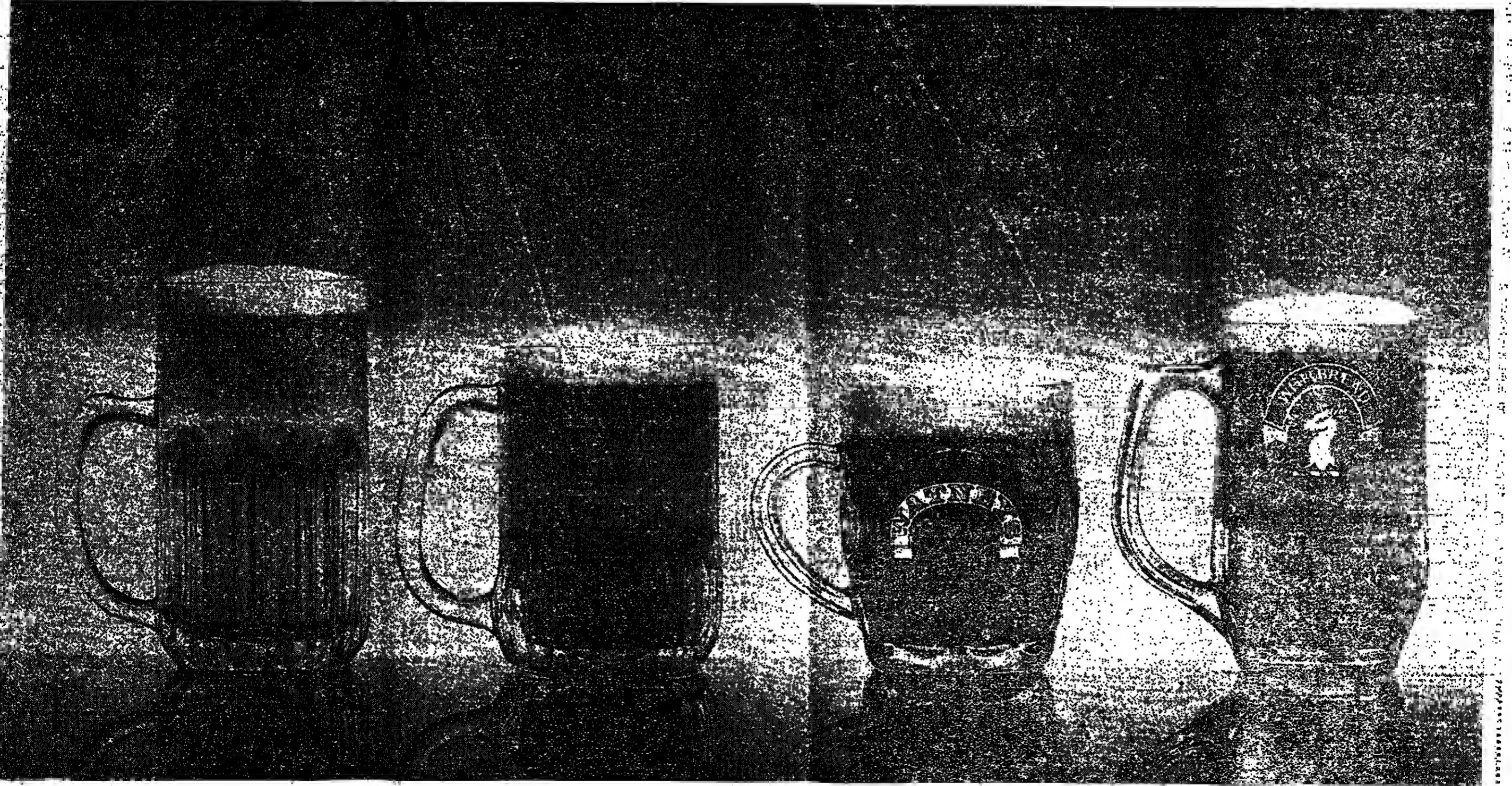
on company cars would have a damaging effect on the motor industry.

He argued that the overwhelming majority with company cars were forced to use them as a tool of their trade.

Rural workers' homes threat

THOUSANDS OF rural workers will become homeless if Conservative proposals to sell off council homes go through, Mr Jack Boddy, general secretary of the National Union of Agricultural and Allied Workers, says in a statement today.

Selling council homes would leave fewer council houses to rent and cause difficulties to farmers and farmworkers whenever a farmer needed vacant possession of a tied farm cottage.



Who builds the breweries where the brewers brew the beer?

A brewery is not a factory. It's a meeting place of traditional skills and modern technology. It has to be designed and built as an entity.

It's no coincidence that John Laing have been selected as the main contractors for four of the most modern breweries in Britain. The Whitbread brewery at Luton, the Harp brewery at Alton, Watneys

London's brewery at Mortlake are all completed. The new Courage brewery by the M4 at Reading is well advanced, and the first pints of Reading-brewed John Courage should be drawn in 1979.

However, Laing are much more than specialist builders to the brewing industry. This advertisement could have been built round Laing's special

knowledge of building cathedrals, with Coventry Cathedral and the new Roman Catholic Cathedral of Clifton, at Bristol, to their credit. Or docks, constructed from scratch in the Middle East. Or hospitals. Or oil platforms.

More than 20,000 people give Laing this special knowledge in so many diverse fields of construction. Collectively,

they make Laing one of the biggest construction companies in the world. However, size in itself is no virtue. At Laing we believe that our strength lies not in our numbers but in our capability.

LAING

make ideas take shape

Shortage of hares worries sportsmen

By Christopher Farley THE NUMBER of brown hares in Britain is now at its lowest level for a century and a half...

Civil engineers gloomy about future work

BY ANDREW TAYLOR

THE SLIGHT upturn in civil engineering work earlier this year appears to have petered out...

July trade figures out today

By Peter Riddell

AN INDICATION of the monthly scale of the UK's current account deficit so far this year should be provided by the July trade figures...

Government may have to boost money supply, brokers say

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

THE GOVERNMENT may need to act in the coming year to ensure that the rate of growth of the money supply is not inadequately low...

'Curb door dumping' Loss-making air routes may be cut

BY OCR INDUSTRIAL STAFF

THE WOODWORKING industry, which has a turnover of more than £100m a year, is expected to be hit by the EEC Commission to curb the dumping of wooden doors in the UK...

Loss-making air routes may be cut

Financial Times Reporter

BRITISH AIRWAYS is carrying out a major review of loss-making routes and aircraft and seems likely to prune those services which consistently make losses...

Fish farms run at loss

MANY FISH FARMS are running at a loss, according to a study by the University of Reading...

Royal Doulton jobs cut move

THE STOKE-ON-TRENT-based Royal Doulton china and tableware company may have to reduce its workforce by about 3 per cent in the next few months because of an expected fall in demand...

Tax and Price Index fails to end arguments

BY OUR ECONOMICS CORRESPONDENT

THE TAX and Price Index unveiled on Friday has not resolved the fierce debate about whether the Budget tax changes have made the average family better or worse off...

WADHAM STRINGER ROLLS-ROYCE

- Official Distributors for Rolls-Royce and Bentley. H.A. FOX 34 Dover Street, London, Tel. 01-499 8962. 1976 Oct. Rolls-Royce Silver Shadow II Saloon...

New Abbey National OPEN Bondshares keep your savings on top...

Advertisement for Abbey National Open Bondshares featuring a 10.75% p.a. interest rate and a cartoon character running up a staircase.

Advertisement for Abbey National Open Bondshares detailing terms, interest rates, and a coupon form.

MECHANICAL ENGINEERING Report forecasts grim prospects

BY HAZEL DUFFY, INDUSTRIAL CORRESPONDENT

PROSPECTS for the mechanical engineering industry have worsened considerably during the last four months, according to a forecast published today by the Engineering Employers' Federation...

GUILDFOORD

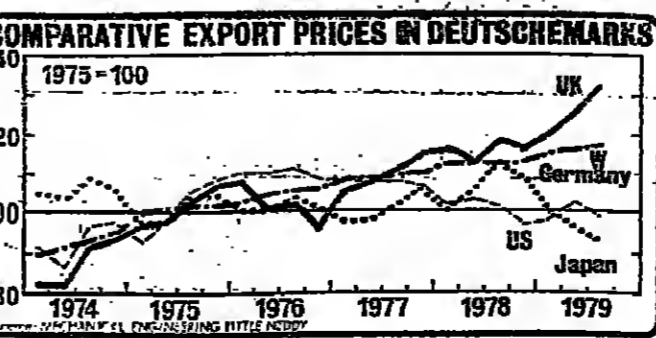
- Woodbridge Road, Guildford, Surrey, Tel. 02421, Tlx. 859255. 1976 June Rolls-Royce Corniche II finished in Willow Gold with beige hide interior and Brown Everflex roof...

TORQUAY

- Liburne Square, Torquay, Tel. (0803) 24321. 1975 July Corniche Convertible in Walnut with beige hide upholstery and beige hood...

Advertisement for Daimler Sovereign and Jaguar XJ6 3.4 LWB.

Advertisement for Citroën in the City and Contract Hire and Leasing.



هكنا من الأصيل

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Some people say that the only way to tell the public your story is to tell them over the head with facts. And nothing more.

But, when it comes to telling the public your story, there is a better way of going about it. And, equally, there are other reasons why you should tell the public your story.

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Intelligently used as a business communication vehicle, effective corporate advertising can help you to develop and maintain a strong and lasting relationship with your customers.

For more information on how to tell the public your story, please write to us for a free copy of our new book "Corporate Advertising: Menace, myth or magic formula?"

Which is why we've produced a book to help you get it right.

Form with fields for Name, Position, Company, Address, and Nature of Business.

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Is this the only way to talk to your workforce?

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Advertising is the best way to talk to your workforce. It is the only way to talk to your workforce in a way that is both effective and efficient.

Intelligently used as a business communication vehicle, effective corporate advertising can help you to develop and maintain a strong and lasting relationship with your employees.

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Which is why we've produced a book to help you get it right.

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Is this the best way to woo your customers?

There are many people who say that the best way to woo your customers is to tell them over the head with facts. And nothing more.

But, when it comes to wooing your customers, there is a better way of going about it. And, equally, there are other reasons why you should woo your customers.

Advertising is the best way to woo your customers. It is the only way to woo your customers in a way that is both effective and efficient.

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Advertising is the best way to lobby Government. It is the only way to lobby Government in a way that is both effective and efficient.

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Which is why we've produced a book to help you get it right.

Form with fields for Name, Position, Company, Address, and Nature of Business.

Is this the best way to reach overseas markets?

There are some people who think that the best way to reach overseas markets is to tell them over the head with facts. And nothing more.

But, when it comes to reaching overseas markets, there is a better way of going about it. And, equally, there are other reasons why you should reach overseas markets.

Advertising is the best way to reach overseas markets. It is the only way to reach overseas markets in a way that is both effective and efficient.

Intelligently used as a business communication vehicle, effective corporate advertising can help you to develop and maintain a strong and lasting relationship with your overseas markets.

For more information on how to reach overseas markets, please write to us for a free copy of our new book "Corporate Advertising: Menace, myth or magic formula?"

Which is why we've produced a book to help you get it right.

Form with fields for Name, Position, Company, Address, and Nature of Business.

Now you've seen our advertisements, isn't it time you thought about your own?

Above you see our six-part campaign for corporate advertising.

Below you'll find a coupon.

Fill it in, cut it out, return it to us, and you'll receive, free, one copy of "Corporate Advertising: Menace, myth or magic formula?"

It's a brochure which may

alter your attitude towards communications. Because, not only does it discuss the benefits of corporate advertising, it tells you how to go about it.

Send for it today. And start thinking, now, about how effective corporate advertising could improve your company's standing in a wide variety of ways.

Large coupon form with fields for Name, Position, Company, Address, and Nature of Business, and a return address to Anthony Wreford at Financial Times.

Fastnet's tragic economics

By ANTHONY HARRIS

THE Fastnet Race has been tragically enough; but the public reaction to it would well prolong the agony for all who love sailing. It is likely to reinforce the drift towards official interference in what is the freest of recreations and the most complete escape from City pressures that many of us can imagine.

Philosophy

In fact a tragedy of this kind has been waiting to happen for some time. The reasons are partly technical—and so far as they are technical, they have already been attacked by the racing authorities, with results which should become apparent in future designs.

The elite of sail racing has always been and remains a sport for the very rich, since the days when Sir Thomas Lipton devoted some of the millions he had made in making retailing efficient (and incidentally cutting the urban cost of living) to a third-hand campaign.

More sporting

Equally important, risk-taking at the design stage is effectively ruled out. If a class is to be built in hundreds, nothing must be fragile; the need for modifications and their cost would discredit the class. There is no good reason why such classes should not reflect modern thinking on fast sailing as it develops; the risks involved can be limited.

RACING

BY DOMINIC WIGAN

Elizabeth Diamond Stakes in my mind that the connections of Troy set for massive gamble over 10 1/2 furlongs at York. There is little doubt in my mind that the connections of Troy set for massive gamble over 10 1/2 furlongs at York tomorrow.

THE WEEK IN THE COURTS

By A. H. HERMANN, Legal Correspondent

Lord Simon's dictum of 1947, "specification of particulars of the offence," the decision may go a long way in protecting the citizen against fishing expeditions by the authorities. If however, the appeal judges would be satisfied with the naming of one or several of the six categories of tax offences this would hardly help.

THE SECOND ACT OF THE ROSSMINSTER DRAMA

feel no less duty bound, not only to stop illegal tax evasion but also to plug any holes in the law which help tax avoidance. One can assume that in addition to helping with the investigation of suspected tax offences, the raid on the Rossminster premises could also yield information about the clever legal schemes that are being used by such successful practitioners.

Lessons from the Rossminster case

In a narrowly technical sense the judgment rested on the interpretation of the statute law which enables the Inland Revenue to obtain from a judicial authority a search warrant if it can satisfy the judge that it has information justifying the suspicion of a tax offence.

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Troy set for massive gamble over 10 1/2 furlongs at York

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Entertainment Guide

Entertainment Guide section containing various listings for Opera & Ballet, Theatres, Radio, TV, and Cinema. Includes titles like 'The Threepenny Opera', 'The Merchant of Venice', and 'The Sound of Music'.

F.T. CROSSWORD PUZZLE No. 4.052

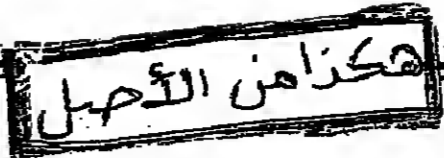
Grid for crossword puzzle with numbers 1-30. Includes clues for Across and Down.

ACROSS
1 It's the bird to talk lightly about us (6)
4 The fellow gets an order for bacon (4, 4)
9 A foreign type—not upright (8)
10 A saint to beat in Wales (8)
12 A small-time criminal in infancy (8)
13 Search about, but they are not all marble (6)
14 Submit a sound reason for the doctor's visit (4, 2, 4)
15 A diarist's suggestion for retirement (3, 2, 2, 3)
16 Chooses a different post (4)
17 There is little money for a good man with a place in Bucks (6)
18 Don Quixote's lady-love may include a variation (8)
19 It is unavailing to turn a shooter on a politician (8)
20 Here is a theologian to hazard a guess (6)
21 Proves unreliable like a dress with a hem (4, 4)
22 Cuts off the prophets about five (6)
DOWN
1 But now I am cabled, —

1 "But now I am cabled, —"

LOCAL AUTHORITY BONDS
Every Saturday the Financial Times publishes a table giving details of Local Authority Bonds on offer to the public.
For advertising details please ring Brian Kelaart 01-248 6000 Extra 266

THE ARTS



Architecture

The State of the Art by COLIN AMERY

There is something very touching about the remark made in the current issue of the Royal Institute of British Architects Journal...



Liverpool Cathedral

The award jury praise Gateway House for its "bold gestures at a more humane approach to a large headquarters office building..."

not one to make your heart leap with excitement but of a standard that should be basic for all new buildings.

So far so good. It is possible to see how committees of architects found serious virtues in both of these buildings.

There was something strangely formless about The Who's concert at Wembley on Saturday.

Theatre Upstairs

Carnival War a Go Hot by MICHAEL COVENEY

The Royal Court's main stage is dark at the moment, but the English Stage Company's best new plays of the year continue to emerge at the top of the stairs.

At this point the resemblances to Orion's great farce become clear. The Dr. Rance figure is the instructor, a character comically played by the excellent Bernard Galloway.

There were, of course, the dramatic effects, mainly concentrated around the short excerpt from "Tommy".

Wembley Stadium

The Who

There were, of course, the dramatic effects, mainly concentrated around the short excerpt from "Tommy".

There were, of course, the dramatic effects, mainly concentrated around the short excerpt from "Tommy".

Coliseum

Die Fledermaus by MAX LOPPERT

The English National Opera's new production of Die Fledermaus is not wholly new. The sets are, of the costumes, but the production by Glen Byam Shaw and Tom Hawkes...

pearty grey and pink, later in black and white, all with lace trimmings, also bold the promise of longevity, which is high up on the list of an ENO opera's requirements.

Resaliuda is Lois McDoom, gorgeous to look at, good with the spoken (if not always with the sung) words, grandly carried and at the same time self-mocking in the way that belongs to operetta leading ladies.



Lois McDoom and David Hillman

Susan Hampshire to star in 'Night and Day'.

Schreier recital cancelled.

Exhibition of sporting pictures.

CRICKET BY TREVOR BAILEY

How to avert spectator disaster

WITH ONLY a limited amount of play on the opening day and none on the Friday or the Saturday, it seems almost certain that for the second successive year the Headingley Test can be written off as a cricket, financial and spectator disaster.

remembered, on the marks they receive from the captains, and they are only too well aware that professional players are inclined to be fussy about conditions unless these happen to suit them.

by far the largest audience potential of the week, is the rest day.

Logie and money suggest that a Test in this country should start on Saturday with the rest day on Tuesday, but this would not appeal to John Player, who sponsors the Sunday league largely because of television coverage.

TENNIS BY JOHN BARRETT

Some vintage play from the veterans

THANKS TO indoor courts in Manchester and London, two national competitions at opposite ends of the tennis spectrum were completed last week on schedule.

At the northern LTC in West Didsbury, the under-21 championships, normally played on grass, were saved by the Tennisquik indoor court there and three others at nearby Stalybridge.

championships, only three players have won twice John de Mendosa, was successful in 1969 and 1970, before dropping out of tennis a year or so later.

ever 40! That Rita Lauder should have won the singles was no surprise. For as Lancashire's Miss Bentley, she was ranked nationally in the 1930s and aspired to a Wightman Cup status on one occasion in 1966.

FINANCIAL TIMES

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Monday August 20 1979

David Fishlock reports on the new technology of swapping power between Britain and France

Cutting an electricity link across the Channel

Perks and the tax base

PAYMENT in kind rather than cash is a primitive and undesirable distortion of the market system... The steps suggested on Friday by the Inland Revenue to tax the benefit received to employees who use company cars...

Higher revenue

The Inland Revenue concentrates on the desirability of achieving equity between employees with and without the benefit of company cars... The new taxes will come in approximately equal proportions...

Grossing-up

Far from complaining, company car users should be thankful that the Inland Revenue has not proposed an even harsher treatment of perks... First, only half the benefit of a company car would be taxed...

Special interests

Naturally there will be squeals of protest against these proposals... But this time there are grounds for hoping that change will not be sabotaged...

Brazil at a crossroads

THE CABINET changes announced in Brasilia this month have underlined the strains which the Brazilian economy has been undergoing in the past few years... In this difficult situation the recently installed government of General Joao Baptista Figueiredo has been pulled two ways...

Protectionist

The bill for imported fuel this year may well touch \$7bn and absorb more than half the receipts from exports... The chief proponent of his policy has been Sr. Mario Henrique Simonsen, his planning minister...

Expansion

At first sight Mr. Delim Nato appears miscastrated to the role of an expansionist battling on the side of liberalisation... The departure of Sr. Simonsen from the Government and his replacement by Professor Antonio Delim Nato, the Agricultural Minister...

Labour interests

Brazil's economic difficulties have been compounded by the domestic political situation... The work force is becoming increasingly restive particularly in the great industrial centre of Sao Paulo...

THE STORMS that turned the Fastnet yacht race into a calamity last week also interrupted trials of another marine venture... Off Sandown, Isle of Wight, the Central Electricity Generating Board is taking its first steps into seabed engineering.

In trials costing £35,000 a day, its engineers are hoping to demonstrate a novel way of laying cable securely on the seabed... They hope to bury, by remote control, high-voltage electricity cables at the bottom of a narrow trench 5 ft deep.

If they succeed, four such trenches will be cleared through the chalk separating southern and central Britain... The venture is a joint one with France, under serious discussion between the CEGB and Electricité de France (EdF) since 1971.

The venture is a joint one with France, under serious discussion between the CEGB and Electricité de France (EdF) since 1971... Both parties agree they would destroy the economic case for the cable if they achieved an availability no better than for the existing link.

Avoiding 'spillage'

But in practice there is much more to these international inter-ties than merely emergency service... They began in central Europe as a way of exporting surplus hydro-electric power when the dams were full...

MEN AND MATTERS

Crying wolf in the woodshed

A seemingly insignificant take-over announced last week has stirred up the hornet's nest of Britain's highly traditional timber trade... The chief proponent of his policy has been Sr. Mario Henrique Simonsen, his planning minister.

Others have argued that such a course would only exacerbate the political problems in the country... The chief proponent of his policy has been Sr. Mario Henrique Simonsen, his planning minister.

The departure of Sr. Simonsen from the Government and his replacement by Professor Antonio Delim Nato, the Agricultural Minister, indicate that Gen. Figueiredo has opted for the bold course of continued expansion...

Another small Midlands firm I talked to, also turning over around £2m a year, and recently taken over by a Finnish supplier, felt, however, that this kind of development was inevitable in the trade...

ness and Boulogne: half each, joined in the middle. It proved its value to Britain in the rough winter of 1962-63...

But with the rapid growth in electricity demand on both sides of the Channel, a 160MW cable soon became too small... It proved unreliable, subject to too much damage in a strait through which several hundred vessels pass daily...

In 1974, badly hit by the OPEC oil price increases, the French began to urge Britain to agree to establish a new link... They foresaw a serious risk to their following dry years when their hydro-electricity capacity would fall...

Subsequent discussions considered the possibility of swapping as much as 4,000 MW. But they settled on 2,000 MW as a capacity which could have a payback period of as little as five years...

Both parties agree they would destroy the economic case for the cable if they achieved an availability no better than for the existing link... They are looking for a cable that operates for 95 per cent or more of the time...

ESTIMATED UK COSTS OF 2,000 MW CROSS-CHANNEL CABLE

Table with 2 columns: Item, £m. Converter station at Sellingle, £39; 400 kV sub-station at Sellingle, £53; DC submarine cable (32 miles), £73; DC and other cables, £10; Civil work, £10; Trials, controls, etc., £17; Modification to 400 kV transmission, £10; TOTAL, £182.

* Electricité de France will have similar costs, plus the expense of strengthening its transmission system in north-west France.

Whether the project goes ahead or not depends on whether we can embed it...

John's joke

Even propaganda wars have their lighter moments... He was invited to the presidential palace and given the tour of inspection usually accorded honoured guests...

Gang warfare

Henning Scherf, senator for finance in the Bremen state assembly, and a rising star among West Germany's Social Democrat politicians, set off recently on a cycling holiday... But whenever he stops pedalling there is a reporter waiting to ask him how he defines the word "gang"...

'Dredging' the chalk

The French are experimenting with a method of 'dredging' the chalk... The CEBG believes that it will not prove man enough for the hard rock...

The French are experimenting with a method of 'dredging' the chalk... The CEBG believes that it will not prove man enough for the hard rock...

The transmission division of the CEBG, responsible for Britain's half of the project, began by making a world-wide survey of organisations experienced in seabed engineering...

The transmission division of the CEBG, responsible for Britain's half of the project, began by making a world-wide survey of organisations experienced in seabed engineering...

Abdul in the works

The wide boys of the Slater era are emerging, partly reconstructed, from the woodwork... In certain cases happy days are here again, in others not...

Frogs' friends

The Chinese, like the French and others, are partial to frogs... The Chinese chickens like them too, and certain communes mount large-scale frog and toad hunts...

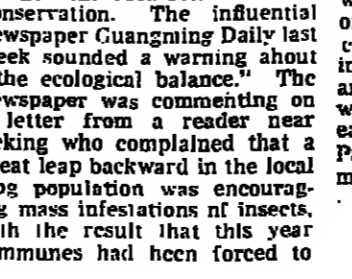
Bidding in spirit

After a long and busy day last week ferrying around Bitchael Vernon, chairman of Spillers, which has just had a bid sprung on it by Dalgety-Vernon's chauffeur went home and sunk into an easy chair... It was his father asking what on earth was happening...

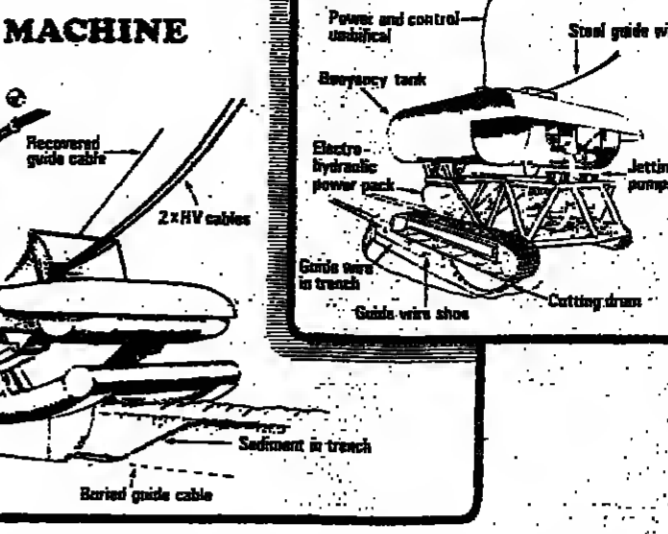
Who cares for the boat people?

The British Council for Aid to Refugees (BCAR) is the coordinating voluntary agency for the RECEPTION AND RESETTLEMENT in this country of Indo-Chinese refugees... Along with its member organisations BCAR is also operational, caring for thousands of these refugees...

SEABED TRENCHING MACHINE



CABLE LAYING MACHINE



They surveyed the seabed but found no convenient route through soft seabed, such as can be exploited in the Skagerrak... Both utilities have mounted development programmes...

The principles of the trenching machine had already been tried on a scale model, cutting hard rock in quarries last year... The submarine cable itself, says Dr. Howard, presents no particular technical problem...

The seabed follows, hauling itself along the hawser while feeding a pair of high-voltage cables into the trench... These are the machines now being tried out at a depth of about 45 feet...

The seabed follows, hauling itself along the hawser while feeding a pair of high-voltage cables into the trench... These are the machines now being tried out at a depth of about 45 feet...

Two-way flow of power

The biggest slice of investment, however, will be in the converter station... This can be seen as one of a pair of stop-cocks which, when operated together, can switch the generating capacity of a big power station...

270 ft high building

But the size and above all the headroom required for these valves suggests a big building, perhaps up to 270 ft high... It also suggests the need for large fans to move large volumes of air to keep the valves cool...

SEABED TRENCHING MACHINE



Modern technology of ac to dc conversion and vice versa involves large silicon semiconductor devices called thyristors... The noise expected to come from the converter station is likely to feature importantly in the enquiry...

هكنا من الوطن

FINANCIAL TIMES SURVEY

Monday August 20 1979

مكزامن الأصيل

CHINA

China is changing rapidly and becoming increasingly open to the outside world at the same time as it is seeking recognition as a world power. In the first major survey of China to be published by the Financial Times, David Housego, Colina MacDougall and Geoffrey Owen report on their recent visit to China and describe the country's social, economic and political progress.

Welcome partner in the world

By David Housego

CHAIRMAN HUA GUOFENG is to tour Western Europe in the autumn. It says much for China's historic disdain of the outside world that it has taken until the final quarter of the 20th century and almost 200 years after West Europe's pioneering of the industrial revolution and the socialist ideology on which China's communist regime is based for a Chinese head of state to visit this quarter of the globe.

But like Vice-Premier Deng Xiaoping's visit to the United States in February, Chairman Hua's visit is a remarkable reflection of the change that has come over China in the last two years as it has nudged its way into the international community and sought to become part of the world's financial and trading system.

To gain an entrance ticket it has sacrificed many of its former taboos. It has borrowed abroad, raised syndicated loans on the commercial markets, encouraged investment in joint ventures in

China and allowed foreigners to roam across the country in a way that was rarely permitted to the western "compradors" of the 19th century—confined for the most part to their concession areas in the seaports like Shanghai.

At the recent meeting of the National People's Congress it also revealed for the first time in 20 years a wealth of economic data, suggesting that China may indeed soon apply for membership of other global clubs like the IMF or the World Bank.

Overdue

China has also been seeking recognition for itself as a world power—and Chairman Hua's much publicised tour is certainly part of this objective. China wants to cut a higher profile in what it sees as the central issue of international diplomacy today—containing the power of the Soviet Union. To that end it has normalised relations with the U.S., signed a Treaty of Friendship with Japan and reached a long-term—though vaguely worded—commercial agreement with the EEC. It is also anxious to reassert its influence in South East Asia, risking this year a war with Vietnam to bring to heel an historic rival and to challenge the growth of Soviet power in the region.

Along with this more open international stance there has been a relaxation of control within China itself. Vice-Premier Deng seems eager to encourage intellectual debate, as one-way of stimulating enquiry and thus enabling China to absorb new scientific and technological developments essential to its

modernisation. It is true that there was a crackdown in the spring when the posters on "Democracy Wall" in Peking and the demonstrations in Shanghai challenged some of the basic assumptions of the communist regime. But China is probably a less repressive society than it was during Mao's lifetime, and it now has at least the framework of a criminal and civil code.

In its bid to achieve more rapid industrialisation, it is looking to the west for technology. It is also trying to introduce into its own cumbersome bureaucracy, which has not begun to come to grips with the problems of how to rule a billion people, reforms that to us seem long overdue—a devolution of responsibility to provincial governments and to industrial enterprises the use of the market mechanism to achieve a more efficient allocation of resources, bank supervision over credits to industry and, perhaps most important of all, the promise of higher standards of living as a way to get people to work.

All this makes China a more welcome partner in the world. It has other attractions too—the possibility of large offshore oil deposits, rich mineral resources and a substantial market (not as great as had hoped last year but still important) for capital goods. But how long can the present power structure and the policies associated with it survive?

China's record since independence bodes ill for continuing stability in the future. There is probably no other sizeable nation in the world that has seen

such upheavals in the last 30 years. Chairman Mao ran the country as if he was carrying out a succession of military assaults. He was unable to accept that social and economic change comes slowly.

The Great Leap Forward of the 1950s was followed by the Great Depression. That in turn was followed by the Cultural Revolution, which began in 1966 and did not finally spend its force until after Mao's death in 1976. The trauma of those years—in which schools and universities were closed for much of the time so that a whole generation has grown up with scarcely any education at all—is only now beginning to be fully appreciated in the west.

Even since Mao's death, policy has moved by fits and starts. The economic plan that Hua trumpeted in 1977 for transforming China into a major industrial power was abandoned less than a year later. China, its leaders now say, is going through a three year period of "readjustment." Western observers are right to remain sceptical as to whether this is the final turn of the wheel.

Three factors will determine whether the present leadership and its policies can succeed. The most immediate is that the leadership itself hangs together. Hua and Deng have been rivals in the past—Hua accused Deng of holding "wrong tendencies". In 1976 after Hua had helped boot Deng out of power—and will probably continue to be,

But they seem to have struck a modus vivendi in which it is the moderates associated with Deng who have the upper hand.

Political and social framework

The leadership seems to have struck a modus vivendi in the wake of the Gang of Four struggles and is trying to carry through major reforms. But the educational system is still recovering from the excesses of the Cultural Revolution and living standards are rising slowly. In foreign policy distrust of the Soviet Union is the dominant theme.

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Economy

The years of neglect, political disturbance and lack of investment have created many obstacles to the country's attempts to modernise by the end of the century. During the current period of readjustment higher priority is being given to agriculture and light industry, but there is an urgent need to correct weaknesses in basic sectors like power and transport.

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Industry

Disruption of factories' internal management and excessive bureaucracy have left the industrial system plagued by inefficiencies at all levels. But changes are under way. Managers are being given greater autonomy and joint ventures with foreign partners are being encouraged to attract new technology. A huge programme to build chemical plants has been undertaken and China is trying to reorganise steelmaking to make the best use of existing facilities.

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Energy

A serious power shortage has become an important constraint on economic growth, requiring a big investment in new coal mines and power stations. Off-shore exploration is being given the greatest priority, with contracts for seismic exploration agreed with Western companies. Peking is working on a law under which companies can explore and develop new fields.

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Trade

China will have a trade deficit this year, as it did in 1978, but in contrast to last year plans for import growth are more cautious. Trade with Japan has grown fast as a result on the long-term agreement signed last year, but there should also be considerable opportunities for European and U.S. contractors.

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STANDARD CHARTERED IN SHANGHAI



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Still divided on power and policy

THE NEW LEADERSHIP

DESPITE THE harmony in China portrayed to the outside world and the announcement at the recent National People's Congress of bold new plans inspired by Vice-Premier Deng Xiaoping—only No. 3 in the hierarchy but clearly still the force behind the throne—the leadership and the country are still divided on questions of power and policy.

Though the balance of power is certainly with the pragmatic Deng and his supporters, whose reform policies appeal widely to the average Chinese, there is growing evidence that a substantial body of opinion still clings to the radical ideas and attitudes prevalent in the time of Chairman Mao. These are represented on the politbureau by the "Whateverists," as the Chinese press now calls them, those who say "Whatever Mao said was right."

This division has come about partly for personal reasons. Because personal loyalty is important in the Chinese system, and partly for political reasons, since those who came to power as a result of the Cultural Revolution and its attendant arbitrary arrests and killings are afraid to lose it (the semi-official figure for deaths during that period is now 400,000). It even springs from ideology, since the years of Mao impregnated almost every official with the idea that success and profit, which the present leadership is desperate to pursue in order to revitalise the economy, were somehow wrong.

Despite this, the prevailing voice of Peking constantly proclaims unity and stability, remarking that the vast majority of people who oppose its current policies do so because they are mistaken and not because they are adamantly hostile.

Publicly the leadership says that all will be forgiven to those who repent and adopt the new line, and that the days of dismissal and humiliation are over. Such is the implied explanation for the fact that there are still half a dozen or so well-known hangers-on from the Cultural Revolution officially on the politbureau.

Underneath this superficial calm, turbulent crosscurrents are flowing. Last December the ascendancy of the pragmatists seemed a foregone conclusion, when the Third Plenum of the Central Committee of the 11th Congress of the party met and confirmed the personal standing of Deng, both vis à vis Chairman Hua Guofeng, the nominal leader of the country, and the so-called "Whateverists."

The plenum decided to emphasise collective leadership and drop unnecessary bonifices, so that thereafter Hua's position was downgraded. It also rehabilitated some former distinguished leaders, one of whom, Peng Dehuai (now dead) was sacked by Mao in 1959 for attacking the 1958 Great Leap Forward. Peng's criticisms of the Leap were based on his investigations in Hunan province, where Hua at the time was deputy governor. That rehabilitation can hardly have been welcome.

Although the "Whateverists" retained their politbureau ranking at the plenum, they were diluted by some important new appointments, of which the key one was that of Chen Yun, China's leading planner of the 1950s. They lost their executive functions, and their apparent powerlessness was underlined by the new policies announced then of impending economic and legal reforms, which were clearly those of Deng.

But in March and April the pendulum moved the other way. The "Whateverists" on the politbureau, out of sight since December, began to reappear in public, a sure sign that their status was on the upswing. Deng had become vulnerable because two, and perhaps three,

of his policies had run into trouble and lost him support. The first was the new liberalism which had allowed the outbreak of posters in December. These escalated rapidly from permitted attacks on the Gang of Four to the questioning of Chinese policy in general and, in the New Year, to unruly manifestations of discontent.

But few of the people who swarmed round Democracy Wall in Peking were genuine political innovators. While the posters revealed a strong demand to right the personal wrongs done during the Cultural Revolution, to improve living standards and social conditions and to open up contracts with the outside world, it was the rare one that suggested alternative policies. Later, the emphasis of the demands moved still more towards amending social wrongs, particularly at the Spring Festival (Chinese New Year), when huge numbers of young people who had earlier been sent down to the countryside returned to the cities and refused to go back.

Inability

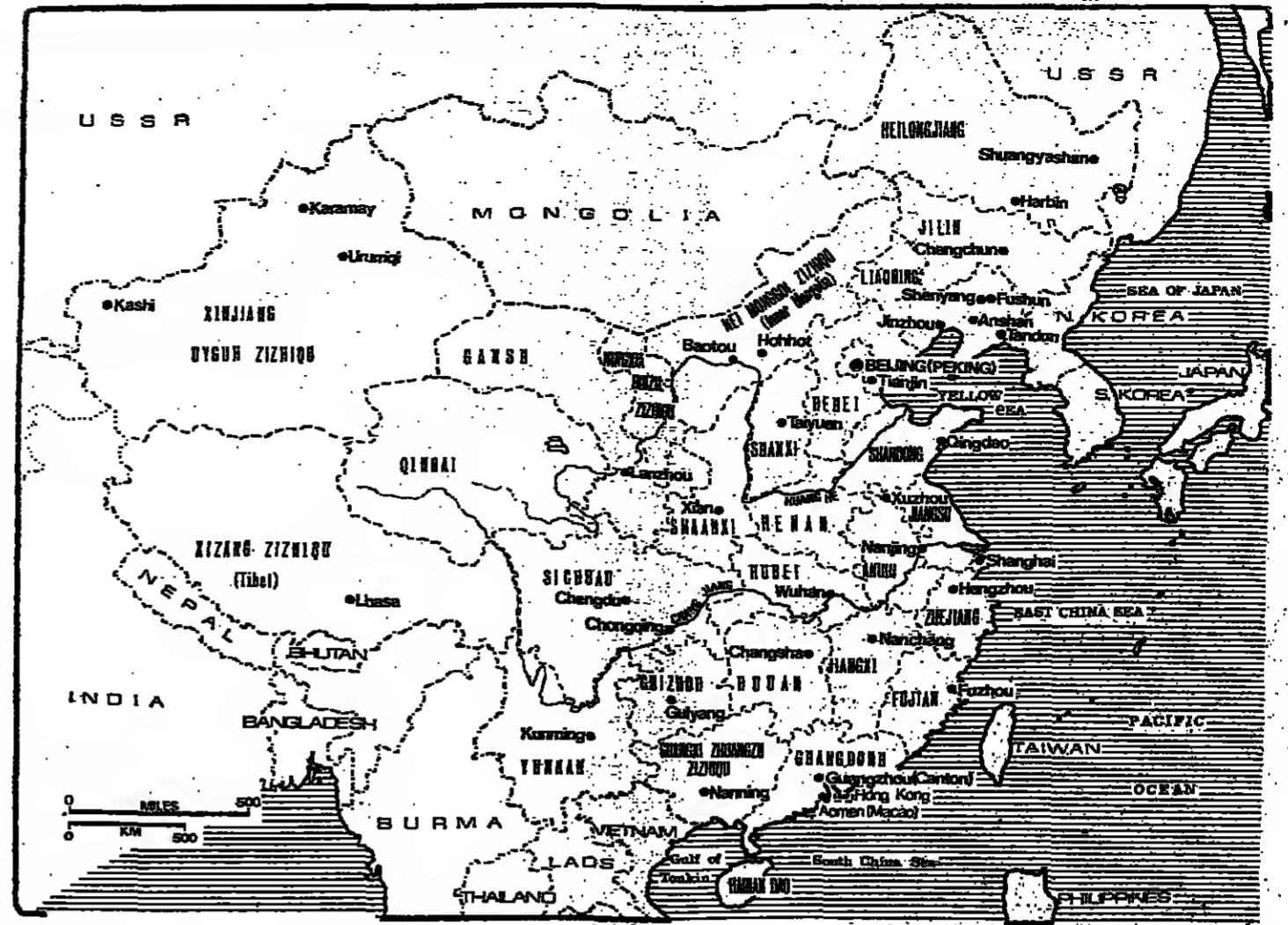
This outburst of feeling, plus the continuing inability of the local authorities to find jobs for the school leavers of 1977 and 1978, brought home to the central leadership the magnitude of the unemployment problem on their hands. In fact this appeared to be a much more serious threat than political disaffection, for the intellectuals, particularly the younger ones, were much more concerned about getting a job and making a niche for themselves and their families within the existing system than in setting out to change it. All the same, more traditional and less sophisticated leaders than Deng were panicked into demanding suppression, clearly believing that these liberalising trends were a mistake.

Deng was also in trouble at

the time for the over-extension of the economy caused by the uncontrolled construction last year in the modernisation fever. Bottlenecks and shortages had become glaringly apparent, and the new freedoms for enterprises to negotiate independently for foreign equipment meant the alarming approach of a shortage of foreign exchange. A further possible embarrassment was the February invasion of Vietnam, which Deng had clearly favoured. It was by no means an unqualified success, causing large losses and some economic disruption, whatever its benefits in terms of foreign policy.

Evidently, then, in April Deng and his supporters were vulnerable. The top-level party working meeting that took place that month to reorder priorities probably saw fierce criticism and no doubt some hard bargaining. But by June Deng had apparently quelled the opposition. The National People's Congress that month numbered among its achievements a new economic plan based largely on material incentives, a new body of law to confirm some rights to the individual, and the appointment of three new vice-premiers, all solid economists of 1950s vintage. There is no doubt that these were Deng's objectives, and that he now has a strengthened body of support at the top.

Nevertheless there is still substantial opposition to his ideas. The "Whateverists" remain in the leadership, in spite of renewed poster attacks in July on the most prominent Wang Dongxing, once Mao's bodyguard and leader of the elite army unit 5341. In addition Chairman Hua's position is ambiguous. He was once himself a "Whateverist," though before the term was coined. He holds both the top two posts in China, and however far he seems to have travelled to Deng's side since his accession to power in 1976, he still rose to his present position as a result of the



COMPARATIVE BASIC STATISTICS

	CHINA	INDIA	U.S.
Area (m sq km)	9.6	3.2	9.4
Population (m)	975	626	217
GNP (\$bn)	380 (est.)	103	1,762
Exports (\$bn)	10.7	7.0	143.7
Imports (\$bn)	12.0	8.5	172.9
Grain production (m tons)	305	126	267
Steel production (m tons)	32	10	124
Crude oil production (m tons)	104	11	432
Coal production (m tons)	618	102	660

sufferings of Deng and his friends. The continuing promotion of rehabilitated leaders—particularly Peng Zhen, who disappeared in 1966 and was once far closer to Mao than Hua has ever been—is a constant threat to his pre-eminence.

None of this might matter if the moderates in the leadership could be certain of carrying the country easily along with them in their new policies. But they cannot. Since the Congress, the Chinese Press has regularly blasted the "villains" and "arch-criminals" who oppose the policies of Deng. Some important provincial leaders have not abandoned traditional Maoism nor adopted the more-rewards-for-more-work ideas which are the foundation of Peking's present plans.

There are some, the People's Daily said emphatically in July, who actively pushed the Gang of Four's ultra-leftist line and still have not changed their stand, who "are accustomed to trimming their sails and manoeuvring among different groupings" in the rural areas there are "ultra-leftists" who might make a comeback since they "caused chaos" in March and April, describing the policies of Deng as "deviationist." And there is a vast mass of uneducated, inflexible officials whose main experience was in the Gang's period, accept it as normal and refuse to change.

Taken together, these constitute a formidable hurdle for the leadership to overcome. Deng has a strong team in Peking, but his policies are a gamble and could still be frustrated by hostility at the top and the opposition, fear and inertia of an influential minority distributed throughout China.



Chairman Hua Guofeng



Vice-Premier Deng Xiaoping

C.M.

Welcome partner

CONTINUED FROM PREVIOUS PAGE

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Deng has got his followers into key posts as Vice Premiers or into the politbureau.

But it would be unwise to conclude from this apparent rapprochement that the hatchets have been buried. The radicals, who climbed up the ladder of power during the Cultural Revolution and supported Madame Mao and her three colleagues in the bitter struggles of 1976, remain strong. They are particularly strongly entrenched in the middle levels of the administration and the party machine, either biding their time or else actively opposing the changes now occurring.

The second factor is that Deng's policies will ultimately be judged on whether they achieve higher living standards. As a broad generalisation the Chinese are weary of Mao's type of moralising and want to see some rewards from their years of toil. The strongest card in Deng's favour is that his policies do respond to a long-term wish for higher living standards that has periodically raised its head over the past 30 years only to be pushed down by the puritanism of Mao and indeed of that streak of self-abnegation in the Chinese character to which he appealed.

Deng has bought immediate goodwill (and probably a lengthy breathing space) by raising rural and urban incomes by a sizeable amount. But over time, higher incomes have to be paid for out of higher agricultural and industrial output, which, as Mao found, move up only relatively slowly in a country like China.

The breathing space is needed to carry through the major reforms that Deng is attempting during these three years of adjustment. Most difficult of all will be the needed changes in attitudes they imply—attitudes, for instance, towards material incentives, managerial responsibility, foreign loans and investment—in a bureaucracy that is



"Water isn't getting to those upstairs." A Shanghai daily newspaper's view of the disproportionate share taken by the USSR from Comecon membership.

kind of change after the scars of the Cultural Revolution, burdened by the dead hand of orthodox Maoism and apprehensive of taking decisions itself. The "new" ideas are coming from men in the 1970s who had a brief chance to try them out when in power in the early 1960s. They are not understood, however, by most of the established bureaucracy. They are even less understood by the generation of students who should have been at school or university between 1966-78 but who in practice picked up hardly any education because the schools were closed or in

turmoil or the students had been sent down to the countryside. Finding them work in addition to the millions of jobs needed for the generation now entering the schools (the result of an explosion in the birth rate during the Cultural Revolution) which is now reflected in an explosion in the school population) is as big a headache as feeding China's population.

machines and 13 watches. On this, admittedly crude basis, China fits into the category of middle level developing countries—attempting now like other developing countries to raise its national income by expanding its agricultural output, by upgrading its industry with the help of foreign technology, and by trying to pay for this by exporting raw materials and manufactured goods throughout the world. Developing countries have a way of muddling through.

But China is of course more than a developing country. It has 1bn people and is adding to its population at the rate of 10m-20m a year, which at a time of pressure on land and food throughout the world inevitably makes it a force in world politics. The exodus of refugees from China through Hong Kong this year, the war with Vietnam, the resistance of South East Asian states to a new wave of Chinese immigrants carried to the point of pushing them back to Brown-at-sea can all be seen as part of an immense communal and population problem that will grow more troublesome as the years go by.

China is also seen by the Russians as a major security threat—a perception which in itself draws China into the West's calculation of the global strategic balance. In its efforts to find a counterbalance to the Russians, China is also being drawn deeper into a Pacific community of Japan, the U.S. and as yet to an unknown extent, the newly industrialised countries of South Korea, Taiwan and Hong Kong.

In the last resort the West stands to gain substantially by the changes being made in China and by China's more open stance to the world. If Deng and his policies should fail, there is every chance that the pendulum would swing sadly back to another isolationist, xenophobic and repressive regime.

Worldwide drive for new friends

FOREIGN POLICY

THE ECONOMIC policy of the new Chinese leadership is a legacy of the early 1950s. But in foreign policy it has struck out on a course that is entirely its own.

At no time in the past 30 years has China so abandoned the precepts of self-sufficiency or of aloofness from the non-Communist world as it has today for a diplomacy by which it seeks to acquire the status and responsibilities of a major power. The normalisation of relations with the U.S., the Treaty of Friendship with Japan and the extensive tours its leaders have made through South-East Asia, Europe, Africa and the Middle East point to Peking's desire to strike up new alliances across the world. Moreover, for the first time in 17 years China has gone to war, launching in February what it described as a limited counter-attack on Vietnam.

Linking these diverse strands is the central belief of Chinese foreign policy—that the Soviet Union is an expansionist power determined to strangle China by encircling it and that it must be challenged at every stage in its advance. In the warnings of Vice-Premier Deng Xiaoping in Washington, in Peking's denunciations of detente and the SALT agreement as valueless, in the invasion of Vietnam itself, lie the same message of the need to resist Soviet ambitions.

Alliances

Thus China's response to the threat of Soviet encirclement has been to stake out its own network of alliances designed to outflank the Russians. Its invasion of Vietnam shortly after that country had signed a treaty of friendship with Russia was an attempt to demonstrate that such a treaty offers little guarantee of national security. The result of the action has been to make Indochina the new focal point of Sino-Soviet rivalry.

The opening of Sino-Soviet talks with a view to resolving outstanding differences does not lessen the deeper suspicion of

the Russians that led China in April to abrogate its own 30-year Treaty of Friendship with the Soviet Union. But so long as the U.S. and other Western powers leave the door open to Moscow Peking feels it wise to do so as well.

The philosophy behind this policy was spelt out in Deng's speech to the UN in 1974—after China became a member of the UN and before Deng was ousted from power for a second time by radicals—which portrayed the world as divided into three groups. Deng picked out the Soviet Union as the most dangerous of the super powers, ready to precipitate a war with the U.S. and against which the second group of powers such as Japan, the EEC or China should be prepared to take a combined stand.

Peking has thus been pursuing new alliances to offset Russian power. In August it signed the Treaty of Peace and Friendship with Japan—thus officially at least ending any lingering resentment at Japan's invasion of China before World War II, but more important, signalling China's success in getting Japan to give preference to China over the Soviet Union in its relations with the two major Communist states.

The Japanese would have preferred parity of relationship in their ties with China and the Soviet Union because of the potential of the two countries' natural resources. But they ultimately went ahead with the treaty in spite of Russian opposition because of the Russians' unwillingness to show any accommodation in the dispute over the return to Japan of the Kurile Islands that the Russians occupied in the war.

In January, China and the U.S. unexpectedly announced that they had agreed to normalise relations. The roots for this move were laid during President Nixon's visit to China in 1972 but the discussions at the time left a number of questions about the future of Taiwan unsettled. During his visit to the U.S. Deng agreed to respect "the realities" of Taiwan without formally ruling out the use of force to annex the island. The U.S. abrogated its defence treaty with Taiwan but will continue to sell it arms. Though normalisation has been followed by cultural and trade agreements, the U.S. has resisted the initial Chinese

attempt to present their close ties as the strengthening of the anti-Soviet bloc—or what in American terms has been known as "playing the China card."

But the Chinese have pursued their anti-Soviet drive through other channels. In August Chairman Hua Guofeng made his first tour abroad as Head of State to visit Yugoslavia, Rumania and Iran—all countries on Russia's southern flank and suspicious of the growth of Soviet power. The Chinese have condemned the U.S. failure to stand up to the Russians in the Gulf region and have supported ideas of a Gulf security pact. They have championed Pakistan—possibly to the point of helping it to establish a nuclear capability. Their senior leaders have toured Africa and the EEC—and the EEC a long-term though vague trade agreement has been signed—and Hua is to visit West Europe in the autumn.

Parallel

Along with the goal of building up a network of relationships with the major industrialised powers has run the parallel aim of strengthening China itself through a modernisation programme drawing on foreign technology. This the leadership can claim to be enhancing rather than diminishing the familiar goal of self-sufficiency by a more active foreign policy.

Trade pacts—and more important, an increase in the volume of trade and the readiness of the Chinese to expand imports of capital plant through borrowing abroad—have followed the new diplomatic initiatives. That the Chinese in their first flush of enthusiasm for Western technology hit off more than they could chew does not alter the fundamental shift in attitude towards the importance of foreign trade in stimulating the economy.

Chinese policy in South-East Asia at first seemed of a piece with its building up of a network of friends and of attempting to deny advantages to the Soviet Union. But Peking was clearly caught off balance by the momentum of events that at first carried it into growing rivalry with Vietnam, then into a potential confrontation with the Soviet Union which signed a Treaty of Friendship with Vietnam, and then into a

risky war with Vietnam. The end of this saga is by no means in sight. Vice-Premier Li Xiaolan has left open the possibility that China will repeat its punitive action against Vietnam—an enormously costly measure that the economy cannot afford but in which China feels its prestige and security are at stake. The repercussions of China's conflict with Vietnam and the accelerated flow of ethnic Chinese refugees from Indo-China in the first half of the year have also revived anti-Chinese communal feeling in South-East Asia—damaging to both the expatriate Chinese community and to Peking.

The Chinese carry much of the blame for the escalating rivalry in Indochina. Their support for Pol Pot's regime in Cambodia was at one level backing for Khmer nationalism against the extension of Vietnam's influence in Indochina and was welcomed as such by other South-East Asian States anxious for an independent Cambodia as a buffer to an expansionist Vietnam. But it was also backing for an inhumane regime that had alienated world opinion and which in 1978/79 was carrying out provocative raids across Vietnam's frontiers.

China clumsily hoped to bring pressure on Vietnam by cutting off aid. Instead it pressed Vietnam further into the arms of Comecon and the Soviet Union. The protective stance it adopted in 1978 towards the Overseas Chinese communities of South-East Asia both gave Vietnam an excuse for rounding on its ethnic Chinese community as a fifth column and aroused anti-Chinese fears among other States, such as Malaysia and Indonesia with large Chinese communities.

China's actions increased Vietnam's irritation with Cambodia. But this was against a background of historic rivalry between the two States. In deciding to take over Cambodia through a lightning invasion in December, the Vietnamese could hardly have expected that China would suffer this blow to their prestige without response. Indeed by enlisting Soviet support through the Treaty of Friendship the Vietnamese added to the provocation. But it is still a moot point whether China's counter-attack in February served its avowed purpose of teaching the Vietnamese a

lesson. The Chinese suffered far heavier casualties than they had expected and the fighting showed up the inadequacy of their equipment. They failed to get the Vietnamese to withdraw mainline divisions from Cambodia which would have weakened Vietnam's position in the parts of Cambodia. Though they demonstrated that the Russians were unwilling to rush to the aid of an ally, the war prompted a massive Russian-supported reinforcement of Vietnam's northern border.

The Vietnamese have since allowed Russian ships to dock at Cam Ranh Bay, the former American base and strategically important for the Russian fleet, whose nearest home port is Vladivostok. The Russians have greatly expanded their

consular staff in Ho Chi Minh City (Saigon) to about 100. The invasion also did not deter the Vietnamese from carrying out another offensive in Cambodia or from expelling more ethnic Chinese.

As against this the Chinese carried out a virtual scorched earth policy in the parts of Vietnam they did occupy, causing severe damage to the already battered Vietnamese economy. They flattened four towns and destroyed an important phosphate mine and a tin mine. They have forced the Vietnamese to maintain their economy on a war footing and are still in a strong position to keep up pressure on Vietnam through aiding insurgents in Cambodia and Laos. They also—in the ambivalent way that South-East Asian states regard

Vietnam and China as both potentially hostile but to be played off against each other—won some merit in South-East Asia for standing up to Vietnam. The ambitious nature of their foreign policy has inevitably raised questions as to whether the Chinese are overstretched in this area as they are in so many others. China has a large foreign service—Chou En-lai protected it from the worst ravages of the Cultural Revolution—but because of China's former emphasis on self-sufficiency it lacks experience. China's ability to gather and assess intelligence still seems weak. In South-East Asia Deng misjudged the risks that his ostentatious tour would arouse historic anti-Chinese fears in the region.

Though the West stands to gain by continuing Sino-Soviet rivalry, it has no wish to see this carried to the point of war with all the unforeseen repercussions that a Russo-Chinese conflict could have. There are plenty of potentially dangerous flashpoints in the region—the long and ill-marked Sino-Soviet border, the dispute between China and Vietnam over ownership of the Spratly and Pratacel Islands in which Russian fleet movements in the South China Sea now lend visible weight to their support of the Vietnamese case, and the continuing confrontation between China and Vietnam over Indochina. The Chinese will have to learn that acceptance into the international community implies proceeding with caution.

D.H.

Reduced priority in national scheme

THE MILITARY

THE DEBATE over the role of the military in China has been resolved, at least temporarily, in favour of a low profile and priority to economic development as a whole instead of to defence.

Soon after the 1976 fall of the Gang of Four pressures for rapid modernisation of the army were apparent in articles in the military Press, but these seem to have been firmly put down. In the list of the "four modernisations," China's programme for updating the economy, in contrast to 1977 when it sometimes occupied third place, defence now consistently figures after agriculture, industry and science and technology.

This may seem to contradict the implications of the spring 1979 invasion of Vietnam, when

the Chinese took on a conflict with the most experienced forces in Asia. But there are various explanations for this.

One is that when the Chinese see their foreign policy interests threatened they will not stop short of military action even if the apparent odds are against them.

Another is that the Chinese generals forced the conflict simply to show conclusively that their weaponry was out of date. And yet a third reason is that the Chinese have been so cut off that they did not realise how hampered they would be when up against the sophisticated electronic and optical weapons of the 1970s.

It remains to be seen how valid are the threats to teach Vietnam another lesson in the future. In the meantime no particular kudos has gone to the military in the February incursion. It had no effect, or perhaps even a negative one, on enhancing their status as a

pressure group in China.

Since the end of the Cultural Revolution, when the army was brought in to restore order in the vacuum caused by the destruction of other authority, the party has been gradually replacing the army in the national power structure—to the point where, on the all-powerful Politbureau, civilians outnumber the active military by two-to-one (three new civilians were added as recently as last December).

In the provincial hierarchy, only a handful of military men now hold the vital provincial party first secretary post. There is a growing tendency to bring the army's party committees more and more within the civilian party's ambit by appointing civilian officials to the party commissar's job in the local military.

In the propaganda for domestic consumption, the mood of the leadership and of

officials right down the hierarchy is of obvious enthusiasm for economic growth. By contrast, the occasional references to the Vietnamese affair seem to carry little weight.

Vietnam apart, the Chinese are really concerned only with defence, and for that they are partially prepared. They have had a nuclear deterrent since 1964. They are thought to have 50-60 MRBMs (their CSS-1, with a range of 950 km), 50-60 IRBMs (CSS-2, with a range of 2,400 km) an extended-range missile, the CSS-3 (with a range of 6,500 km), not an ICBM but powerful enough to launch a satellite.

They are also reported by the Japanese press to have a CSS-4, with a range of 11,000 km (which puts it in the ICBM class), but they are not known to have tested it.

So far they are thought to have deployed the CSS-1 and CSS-2 along the Sino-Soviet

CONTINUED ON NEXT PAGE

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Strategy for the next three years

ALMOST 30 years have passed since the founding of the People's Republic, yet we have achieved far less than we have...

The main problem now facing us is that our agricultural expansion cannot as yet keep up with the needs of industrial development...

Capital construction is too large in scale and spread over too many projects for the country's financial and material resources at present...

In management, there is shocking confusion and waste in some production units and in some organisations not engaged in production...

The new leadership has now given itself three years to put things right—three years of "readjustment", restructuring, co-ordination and improvement...

per cent in 1978 over the previous year to 73.9 yuan. During the current year the State procurement price for grain is being raised by 20 per cent...

Vice-Premier Yu Qili claimed in his speech to the Congress that this amounted to the largest increase in farm prices since independence 30 years ago...

As Hua's speech implied, China needs to grow more food to feed its growing population...

In Guangdong province, the southern province bordering Hong Kong, the official Press recently reported a sharp decline in State purchases of beef, ducks, eggs and other subsidiary farm products...

At the same time the lagging of agricultural growth means that there are fewer agricultural commodities in export (buyers at this year's Canton fair found a shortage of supplies)...

In effect, the deal being proposed to China's 800m peasants, weary from years of turmoil and exhortation to still greater effort, is an offer of higher living standards and more consumer goods if they work harder and produce more...

The halt of higher incomes is also an attempt to prod a workforce with a long record of go-slows, strikes, non-attendance and shoddy performance into working harder and more purposefully...

Priority in the allocation of funds and raw materials to light rather than heavy industry. The main purpose of this is to ensure that sufficient consumer goods are available to soak up the growth in incomes...

Surprisingly, the proportion of State capital investment going to light industry has been raised only marginally from 5.3 per cent in 1978 to 5.8 per cent in 1979...

The delicate decision to allow some slack in the economy. One result of the rapid recovery of the last two years—in which industry recorded well above average growth rates of 15 per cent—was a widespread overstretching of capacity...

Supporting the high growth rates was an increase in the State's capital construction budget, by 34 per cent over 1977 to 29.5bn Yuan. This year it is being held practically constant at 40bn Yuan...

On where the bottlenecks have been greatest: coal, oil, electricity, transport and building material. Overall, however, the share of heavy industry in investment is being cut from 54.7 per cent in 1978 to 48.8 per cent this year.

Overhauling the bureaucracy and establishing new outposts of accountability and control for the vast array of organisations and enterprises that fall under the State...

A stronger foreign trade sector. Foreign trade as a proportion of GNP has been slipping for an already small 3.2 per cent in 1978 to only 3.7 per cent in 1979...

This stabilisation programme is largely self-enforcing. More daringly, in the 79-year-old official brought back to high office in December and made a Vice-

Table with 13 columns (years 1952-1978) and 12 rows of economic indicators including GNP, Population, Agricultural production index, Industrial production index, Electric power, Coal, Crude oil, Cement, Foreign trade, Exports, Imports.

Source: CIA Economic indicators and China's State Statistical Bureau. The American figures are preliminary. The Chinese figures are in parentheses. The Chinese figure for GNP is based on a statement by the Foreign Trade Ministry to the FT delegation that foreign trade accounted for 3.7 per cent of China's GNP in 1978.

premier in June with status probably second only to Deng. He carried through a similar programme of restructuring the economy and checking inflation in the early 1950s before Mao got impatient with what he judged was too slow a pace of change...

The June meeting of the National People's Congress effectively abandoned Hua's plan for providing into the next eight years the same volume of capital investment that China had made in the previous 28...

The most foreseeable constraint to emerge was that China had not the foreign exchange to pay for the plant imports it was contemplating. By December China's prospective plant purchases from abroad added up to about \$40bn...

Three basic constraints limit the pace at which it can develop its economic potential. First, with only a tenth of its land surface is cultivable (and this is already intensively farmed) there is no easy way that China can accelerate its growth in agriculture...

at which the expanding economy had exhausted the possibilities of immediate growth and was running up against shortages of fuel, power, raw materials and rail transport that resulted in high-cost, low-quality production...

It was also clear that in spite of the first increase in wages in years China's industrial workforce was not prepared for another Herculean effort to meet unrealistic targets set by the leadership...

Against this, the statistics do not reflect the poor quality of much of China's industrial output, the slowness by comparison with other developing countries with which it has absorbed modern technology outside certain specialist sectors such as nuclear or missile development, or the advances it still has to make to become a significant exporter of manufactured goods...

marked China's development over the past 30 years. The table, drawn mainly from Dr. Christopher Howe's immensely useful 'China's Economy: A Basic Guide (Elek Books)' shows how far China has progressed in establishing an industrial base in the years since independence (1952 is taken as the base year because it was then that the economy had recovered from the worst effects of the war)...

Foreign experts believe that China will be lucky to obtain an annual 3 per cent increase in production which, with the country's population growing at about 1.5 per cent, does not leave much leeway for raising living standards and exporting more farm produce...

Second, China has a long uphill haul in develop a fuel and power system capable of sustaining industrial growth of 8-10 per cent. Finally, China is a land of a hilly people and vast spaces. Since independence the Communists have found no satisfactory way of administering it that both retains central control and leaves room for local initiative...

Increasing autonomy for local authorities

PLANNING

CHINA FACES daunting planning difficulties because of its size, its intractable problems, its inadequate communications, and its shortage of trained planners resulting from long periods of political disruption...

Questions Almost certainly it is this body, not the State Planning Commission, which is nominally in charge of planning, that settles specific questions such as the construction of large new plant and the role of foreign technology and investment...

which every enterprise reports only to its controlling ministry, and planning departments (which exist all the way down the strata of government—provincial, municipal, county) to the State Planning Commission...

This, and the numerous levels through which requests for a decision have to pass, have obviously slowed down the responsiveness of the enterprises to the country's needs...

Peking also announced it was working on the next five year plan, 1981-85. It is now recognised that the qualitative leap needed by the Chinese economy can only be brought about by medium-term if not long-term planning...

This year's "readjustment" shows the inadequacy of the planning mechanism. A good example of a specific planning error was the purchase of new rolling mills for the steel complex at Wuhan from West Germany and Japan for which the power supply is now seen to be inadequate for full operation...

To help solve the high-level problem the leadership set up a new body after the National People's Congress in June, the Economic and Finance Commission. This is intended to co-ordinate the work of the long-term planning body, the Planning Commission, of the short-term planners in the State Economic Commission (who run China's monthly plans), of the Capital Construction Commission, the People's Bank (China's domestic bank) and the Bank of China (its foreign arm)...

Although Chiao's inaction and long-term planning has not provided the necessary constructive guidance, the short-term planning system has performed reasonably well, in spite of drastic political disruptions. This is because in the 1950s the Chinese took over from the Russians the central organisation of "material balances" under which the Peking planners annually match supply and demand of major items such as grain, fuel and raw materials...

for the following year to which they are subordinate. These are forwarded up the hierarchy to the Planning Commission. After detailed discussions between enterprises and planners, requirements and targets are adjusted. There will be shortfalls and surpluses at the provincial level, and these are balanced by the planners in Peking. Enterprises are supposed to report back every month to ensure that output is as planned and to receive an adjusted plan, but the delays at this stage almost certainly mean that overproduction and shortages occur...

This system means that almost every item produced in China enters into someone's plan. To simplify these complex arrangements, since the beginning of this year the leadership has started to allow enterprises to market their own products outside the plan, permitting them to find their own customers and to keep a proportion of the profits. There has been widespread discussion of the role of the market economy, and while much of it has revolved round its place as a stimulus in production, it has obvious additional benefits in cutting down local planning work and attendant delays...

In his report to the NPC, Chairman Hua said that local authorities should be given more autonomy in planning, as well as in construction, finance, raw materials and foreign trade. This, he said, would cut out the many administrative organs that are "unwisely overlapping and needless." More daringly, in Sichuan 100 enterprises were singled out for an experiment in greater self management and allowed direct contact with customers, even foreign ones. This has reportedly pushed their output increase in the first half of 1978 well ahead of the provincial average. This success will almost certainly reinforce Peking's intention to strengthen the central planning of major projects but at the same time allow a grass-roots market economy that will reduce the overall planning burden. C.M.

COLES CRANES at work in China since the early 50's. Advertisement for ACROW COLES 100 cranes, featuring a large image of a crane and descriptive text about its history and use in China.

A billion mouths to feed

AGRICULTURE

THE GROWTH of agriculture and the need to achieve a surplus of food over population is China's most basic economic problem. It is compounded by the fact that agriculture supplies a high proportion of the raw materials for light industry, which in turn provides about 40 per cent of the exports.

The growth of heavy industry also depends on agriculture since it has to feed an ever-growing urban population; and the raising of the standard of living is dependent on it since, for huge numbers of the rural population, a better life still means a better diet rather than more consumer hardware.

While the Chinese claim to have reduced the population increase to only 1 per cent, they currently admit to a population figure of 955m (the statistic published at the recent National People's Congress, minus the figure for the "province" of Taiwan). Some U.S. demographers believe on good grounds that the figure is well over 1bn.

Until recently, the increase rate was probably at least 2 per cent, which is not much less than the long-run trend of 2.25 per cent annual increase in grain production. Hence the extreme difficulty the leadership faces in trying to provide that most elementary factor in a rising standard of living: feeding the people better.

However, the leadership officially remains optimistic, but while it has abandoned the extravagant industrial targets it put out last year, it continues to put forward the 1985 planned grain output figure of 400m tons. This will require a 4 per cent increase annually in ton-

nage which the country seems unlikely to attain.

Grain production for 1978 was said at the recent Congress to be 304.75m tons, 7.8 per cent up on the previous year. If this figure is correct, it is a healthy increase and makes up for the bad years of 1975-77, when production stagnated owing to bad weather.

However, it has not put the Chinese much ahead; an annual 2.5 per cent increase since 1974 would have given them 303m tons, so they are barely ahead of the long-term trend. While there is no reason to think that the Chinese have misrepresented the total, they have revised the figure upwards several times since last autumn, which suggests at least an uncertain statistical reporting service.

Cautiously, China's planners have set a target for the current year of 312m tons, just 2.6 per cent above the figure for last year. If they can genuinely keep the population growth at 1 per cent, it should provide some scope for economic growth, but many observers still believe they have some way to go before they can induce the peasants to accept small families and rigorous birth control measures.

Modest

In fact the prospects for the current year are modest. In Sichuan only 80 per cent of the rice could be transplanted owing to drought. In the north China plain the wheat was planted late in very dry weather. Good spring rain brought over-rapid growth and problems such as small ears and abridgement.

In central China the crops were set back owing to the cold, wet spring, and in some places rice had to be replaced by wheat, though this damage

could be repaired by good weather and a late autumn. Irrigation will have been affected since the drought last year meant that reservoir levels were low.

Most tellingly, however, the crops in the north-east, which last year produced a good slice of the big rise from 282m tons in 1977, are unlikely to repeat the jump since the late, cold spring has affected the spring wheat.

Peking's biggest worry is where future growth is to come from. China's well-watered, fertile land always has been intensively cultivated, and while modern methods such as powered irrigation and chemical fertilisers have made some difference, the limits on what can be achieved readily may be in sight already.

There is very little worthwhile new land that can be brought into cultivation. The density of habitation is already very high; in the Sichuan basin (admittedly the most densely populated agricultural area of China) the average amount of farmland per head is 1.2 mu (8 mu=1 acre).

While China now has reasonable supplies of chemical fertiliser (8.7m tons produced last year, in terms of nutrient content) the experience required to use it properly is lacking. At communes outside Shenyang and Chengdu the peasants complained that it made the crops grow too quickly with ears that were too small. Both communes would have liked more organic fertiliser.

These complaints are typical of peasant communities that are not using chemicals correctly. To do so requires knowledge and experience that the Chinese authorities are currently unable to supply.

The destruction of research and the denigration of the

academic experts during the years of the Gang of Four has put the development of a good agricultural extension service back many years. While there is an elementary system of spreading agricultural techniques to the countryside from the academic research centres, no experts have been trained since the middle 1960s.

Development of improved seed strains has been via selection rather than breeding, and while the post-Mao attitudes to foreign techniques may mean the import of expertise and seed strains, it still takes some years to adapt these to Chinese conditions and climate.

Irrigation

More irrigation is one key to increased production, but the problem here is the difficulty of bringing water to the much more inaccessible areas remaining dry. Then there is the competition between the needs of the hydro-electric industry and agriculture—further offtake of water for farming would hamper power generation even more than it already does in dry spells.

In the north China plain, perennially dry but nonetheless a vital wheat-growing area, the sinking of tube wells has lowered the water table. There is some doubt about the capacity of rainfall and other water seepage to replace it, while unwise irrigation without adequate drainage has caused alkalisation of the soil.

Mechanisation is another development that could help, although the government wisely has decided to give up the attempt to mechanise wholesale. In one locality, in the open plains of the north east, U.S.-style farm machinery has been used most successfully. Elsewhere in China, though, the fields are small and often ter-



Traditional farming in Sichuan province. Despite lack of modern machinery China produces most of its own food.

aced and machinery is not much used.

What the communes need is farm equipment to help them harvest one crop and put in another as fast as possible to step up multiple cropping. What they have at present is either too unreliable or too complicated. Tractors large and small seem to be used mainly for transport, while rice transplanters, each of which is manned by three people, are far from fully automated.

Rising government alarm at these constraints accounts for the redirection of economic policy this year towards bigger investment in agriculture and more incentives for the peasants. Last December, confronted with a rapidly expanding economy, the central committee revised its ambitious development plans in favour of a new priority for agriculture and light industry, much of which depends on agricultural raw materials.

The leadership decided to

raise the prices paid to the peasants for produce, and cut the prices of farm inputs. This was swiftly followed by the announcement of a new policy to develop key areas selectively, and a growing stress on sideline production to supplement the basic grain allowance.

The "key areas" policy involves switching crops to land most suited to them, for instance cotton to the best cotton land and wheat to the best wheat land. But it is not easy to persuade peasants to give up growing food for cash crops even when they are promised adequate rations simply because in hungry years the government has fallen down

on its word. Hence this logical but unpopular policy may take some time to put into effect.

There are reasonable prospects for raising sideline production, particularly in the livestock area. China last year claimed an inventory of 301m pigs, still less than half the target of one pig for every peasant. Official prices paid to the peasant have all gone up, and the reappearance of free markets means that prices can float freely.

How far China can go in this direction by relying on peasant initiative and keeping livestock fed mainly on household scraps remains to be seen, however. Peking clearly is thinking of

bigger schemes, such as its proposed development of the grass lands in western China for improved animal husbandry.

One expert view of China's agriculture is that there has been much as ten years before there is significant progress in growth. The training of a new generation of agricultural scientists, the development of experience in seed breeding and the proper use of fertilisers, and the construction of costly and difficult water control will take a long time to develop.

In the meantime it is no wonder that one of China's main campaigns is pressure for rigorous population control.

C.M.

Community role restored

BANKING

THE People's Bank of China, Peking's central bank and by far its most important banking organisation, has begun to resume and even expand the part it played in managing the economy before the disruptive era of the Gang of Four.

As the leadership in Peking introduces more decentralisation, greater responsibility for savings, investment and for overseeing the fulfilment of contracts between enterprises, on which the whole interlocking economic system rests, will fall on local bank managers. The powers of the Bank are being strengthened to ensure that it can carry out these functions properly.

The People's Bank began its rehabilitation at an important banking conference last February. The conference report commented with devastating truth that "the efficiency of our banks lags behind that of the 17-year period preceding the Cultural Revolution and trails far behind banks in other parts of the world." The conference, summoned to instruct bank managers in how to play a positive role in the "readjustment" policy, announced tighter rules for loans, more disciplinary powers for managers and higher interest rates from April 1 this year to attract more deposits.

Under the Gang of Four, the Bank's authority was completely undermined, as was that of all the economically-minded party and government leaders. According to sources in the Bank, the radical Gang attacked the deposit business by saying that anyone who put money in the bank should not get interest as it was part of capitalist exploitation (though interest was never officially abolished). Furthermore the Gang said that those who put too much money in the bank would inevitably become bourgeois, and added that strict terms for loans would lead to capitalism. Fear of sowing capitalist or bourgeois seeds in that period of arbitrary accusation and arrest affected savings and loan policy, and the Bank's influence over the economy declined.

Following the Bank's rehabilitation since the Gang period, the leadership is attempting to use it as it did in the past, as a lever of control. The People's Bank is intended to operate in every stratum of the economy, and at the highest level it now plays a part in the formation of the state plan and the budget.

Planning in China is in physical rather than monetary terms, and the money supply is decided to suit the planned supply of goods, according to the system of material balances used in planning. The Bank is consulted to ensure that the currency in circulation is adjusted to the expected level of output and to examine construction plans to make certain that they do not get out of control, as they evidently did last year.

In the new era of readjustment the People's Bank sees itself as having three means of economic management.

The first is attracting deposits to increase the funds available for loans (and incidentally reduce the likelihood of inflation). These have always been one of the Bank's main sources of funds, as personal savings get bigger every year. The total amount of savings at the end of 1978, according to sources in the Bank, was roughly 15 or 16 times that of 1952. Total accounts now number 88m.

From April 1 this year the People's Bank has raised interest rates substantially to over 5 per cent per annum for five-year deposits and just under 4 per cent for one year. Presumably to attract foreign depositors, Overseas Chinese get slightly better rates. These are worth more than their face value since there is no income tax in China. According to the Bank, these new measures have more than doubled the amount of money on deposit.

Another source of funds is the money held in the accounts of industrial enterprises. As production increases, this source gets bigger and bigger. Yet a third is the savings by non-commercial enterprises (for example the Foreign Ministry or other Government bodies). These are legally obliged to keep their funds in the Bank and they do not draw interest on them.

The People's Bank's second management tool is its loan policy. Bank loans are a secondary but important source of funds for enterprises. The country's main capital construction funds do not come from the Bank, but from the appropriate planning level (central, municipal, provincial), in the form of grants. There is much discussion about whether the grant system should be changed to loans to make factory managers more accountable.

Working capital also comes in the form of non-repayable grants, but if the enterprise exceeds its grant it will have to borrow from the Bank. The newly reconstituted Construction Bank (it disappeared in the Cultural Revolution), which is funded out of the budget, makes interest-free loans. At the moment the People's Bank has taken on some of its responsibilities in financing collectively owned (as opposed to state-owned) enterprises. This is particularly important now as collective enterprises are being encouraged to help solve the serious unemployment problem.

Loans from the People's Bank are for a maximum of 12 months, and the terms are adjusted to the needs of the enterprise. The enterprise is expected to make a detailed report to the Bank and complete an application saying how it plans to use the loan and when it will be repaid. A branch bank below provincial level can decide on a loan provided it does not exceed its

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مركز من الأعمال

C.M.

Muddling through

INDUSTRY

MAINTAINING a high rate of investment in industry has been one of China's central priorities for the past 30 years. There is now a large, diversified industrial base and the country produces most of the materials, machinery and consumer goods that it needs; the fact that foreign trade represents less than 4 per cent of GNP illustrates the degree of independence that has been achieved.

But China's industrial performance has been held back by weaknesses in the planning system and in the management of individual enterprises. Because of political and ideological constraints there has been an erratic approach to foreign technology.

There has been confusion, too, over the relative importance to be attached to capital-intensive large-scale industry and small-scale rural industry. The result is a lack of balance which is aggravated by persistent shortages in basic sectors of the economy, notably electric power, transport and building materials.

The present regime has adopted an industrial policy which is designed gradually to eliminate these weaknesses and to set the economy on the road towards balanced development. The ultimate objectives are the same as they were in 1949—rapid economic growth and national independence, especially in defence—but the methods are based on a more realistic assessment of the skills, experience and resources which exist.

After the euphoria of early 1978, when a series of over-ambitious goals were proclaimed, it is realised that China cannot do everything at once. There is an urgent need to make full use of existing investment before embarking on massive new commitments.

The implications of this reappraisal were evident at last month's National People's Congress. The first two points made by Vice-Premier Yu Qihui in his comments on the 1979 economic plan were, first, that efforts should be concentrated on developing agriculture at higher speed and, second, that everything possible should be done to speed the growth of light industry.

Textiles industries would be strengthened, but production in other industries "would be arranged in accordance with possible fuel and power supplies." The proportion of the central government budget going to heavy industry would be reduced.

The range of products covered by light industry is wide. It includes textiles, footwear, ceramics, handicrafts, canned foods, consumer electronics, bicycles, sewing machines, and a host of other consumer items. Some of these activities were well established in China long before 1949; while there is a need for modern designs and modern technology, they pose fewer problems of management and organisation than steel or petrochemical plants.

Vital

A rapid expansion of this sector serves several purposes which are vital to the Chinese economy over the next few years. Because it is labour-intensive, it will help to solve the unemployment problem. It provides an important market for the products of agriculture.

An improvement in the quantity and quality of Chinese consumer goods is necessary to meet the people's aspirations for higher standards of living.

Products of light industry, in which China has a comparative advantage, should be a dynamic element in the country's export trade, helping to finance imports of capital goods. Finally, investment in light industry should yield quicker returns than investment in high-technology heavy industry.

A recent editorial in the Workers Daily noted that between 1950 and 1977 profits and taxes paid to the central government by the light and textile industries accounted for 29 per cent of the state's revenues. This was equivalent to 70 per cent of the state's investment for capital construction and 14 times the investment in light and textile industries.

For each yuan spent on light and textile industries the state received 52 cents in the form of profits and taxes, compared to only six cents received from heavy industry. The editorial commented that the new priority for light industry would temporarily delay the growth of heavy industry, but "it will be more than compensated, because after eight or ten years

funds for the construction of more heavy industrial enterprises will have been accumulated."

The switch of emphasis towards light industry cannot be achieved by government decrees. The manufacturing operations may be relatively simple, but the task of mobilising the many thousands of small enterprises scattered around the country is formidable.

The bureaucracy, both central and local, has been geared to the needs of heavy industry; it is the managers of heavy industrial enterprises who know how to work the planning and allocation system. Moreover, if the manufacturers of light industrial products are to play a bigger part in satisfying consumer needs and in promoting exports, they will need to be responsive to changing market requirements.

It is in this sector more than any other that the planned, socialist economy has to be modified by the injection of market economy principles—a blend which the Chinese leaders say they are determined to achieve.

Direct contact with customers is essential. A model of what can be done is the Shanghai Leather Shoe Factory, which this year is exporting about 500,000 pairs of ladies' shoes to customers in Australia, the U.S., Hong Kong and elsewhere.

Not only are the designs and styles well suited to the world market, but the managers appear to be in regular contact with their international customers and to be relatively free of the bureaucratic shackles of which other enterprises complained. The factory has its own retail store in Shanghai.

In textiles, garments, food processing, toys and other branches of light industry there is scope for co-operation with foreign companies which can provide equipment, know-how and access to world markets. In electronics, particularly, the Chinese authorities are hoping that the new law on joint ventures will stimulate the inflow of foreign capital and technology.

Mitsubishi, the Japanese consumer electronics company which recently signed an agreement to manufacture TV sets in China, hopes to develop collaboration with the Chinese on a wide range of products, perhaps involving other Japanese manufacturers. At the same time the Chinese themselves are sending out missions to learn

more about foreign markets—consumer tastes, distribution channels and marketing arrangements.

The expansion of light industry cannot take place without a reliable supply of equipment, components and materials from the heavy industrial enterprises. An improvement in the efficiency of heavy industry is one of the goals to be achieved during the three-year period of re-adjustment.

Visits to factories making machine tools, steam turbines and electronic computers show that the Chinese are capable of developing and manufacturing complex machinery on the basis of their own efforts, since they have generally moved beyond the original East European designs. While the policy of self-reliance has often been carried to extreme lengths, factories have shown remarkable ingenuity in overcoming production and supply problems.

Moreover, the managers of these plants are well aware of their technical shortcomings and have a pretty clear idea of what should be done about them. At the Shenzang No. 1 machine tool factory one of the products is a vertical multi-spindle semi-automatic lathe, used mainly in the automotive and tractor industries. In the workshop there is a large display which enables technicians and workers to compare in detail the specifications and performance of this machine with four comparable machines made in the U.S., the U.K., Italy and the Soviet Union.

The need to reach internationally competitive levels of quality and reliability was strongly emphasised in this and other factories.

The selective application of foreign technology will be necessary to upgrade the performance of heavy industry. In the sectors which supply essential inputs to agriculture and light industry, such as fertilisers, synthetic fibres and plastic materials, China is continuing to place very large orders for complete plants with foreign companies. But for the most part China will probably use a combination of self-help and limited foreign aid to improve what they already have; farm machinery, where there is a need for more efficient engines, modern tractor designs and new production facilities, will be an interesting test of this policy.

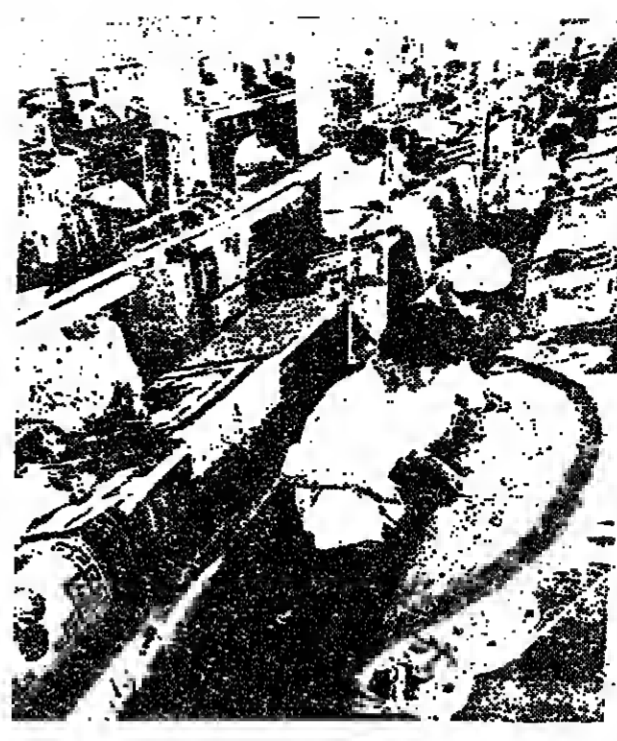
At the same time China will apply a more rational approach

to small-scale rural plants. In principle these plants play a useful role in using local materials and supplying local markets, especially in a country whose transport and distribution network is underdeveloped, but the product and technology must be appropriate to small-scale manufacture.

There is enormous scope for improving efficiency at all levels of Chinese industry. Yet it is striking how much has been achieved despite political disruptions and the difficulties imposed by centralised planning. Not only have the Chinese mastered some difficult technologies (especially but not exclusively in defence-related sectors), but they have shown a remarkable capacity for improvisation and muddling through.

Given a stable political environment, rational economic policies and, above all, patience, China is capable of developing a modern industry well-suited to the needs of the country.

G.O. Woollen carpets being made in a Chinese factory



New mining projects await go-ahead

MINERALS

AT SIIJIAYING in Hebei province, about 300 km east of Peking, a group of Americans from Kaiser Engineers is completing an engineering study of what will be—if the Chinese decide to go ahead with it—one of the world's largest open-pit iron ore mines. The ore is a complex mixture of martite and magnetite, and Kaiser's proposals involve beneficiation to increase the iron content from 23 per cent to 66 per cent. The depth of the pit will reach about 300 metres, and mining operations will involve shifting about 100m tonnes of material a year. In size, ore characteristics and type of equipment needed, it is similar to Cleveland Cliffs' Tilden mine in

the upper peninsula of Michigan—which is one of the reasons Kaiser was chosen to do the work, since this company had engineered the Tilden project.

Kaiser's contract, signed last autumn, was for the first phase of the project, to provide engineering services for the mine, concentrator, pellet plant and auxiliaries. The project team under Mr. Les Trew has been working out capital and operating costs, obtaining bids for the equipment and preparing a financing plan—all of which will be discussed with the China National Technical Import Corporation and the Ministry of Metallurgical Industry in the next few weeks.

Although steel has moved lower down the list of China's priorities, Kaiser Engineers has received no indication that the Sijiyang project will be deferred. The hope is that since China, despite its large

reserves, is a net importer of iron ore, it will be seen as an import-saving project and will be carried through. Moreover, China badly needs to update its ore mining technology, most of which dates from the 1940s and 1950s. The Sijiyang mine is situated close to a main railway line and is well placed for shipping pellets to steel plants in Shaughai and southern China.

The decision on Sijiyang will be a pointer to China's intentions on how fast the country's mineral resources are to be exploited. Another American company, Bethlehem Steel, is working on a similar iron ore project at Shuichang, also in Hebei province.

In non-ferrous metals, too, there is substantial scope for import-saving, but some of the reserves are in remote areas which will need large investments.

Traditionally China has been a substantial exporter of tungsten, tin, mercury and antimony, but production of these metals has tended to stagnate in recent years and new investment is badly needed.

There are known to be rich reserves of these four metals, as well as of manganese and molybdenum. There are also extensive deposits of aluminous ores, bismuth, gallium and titanium, together with large potential supplies of copper, lead and zinc.

According to a recent article in *China Reconstructs*, some important discoveries have been made in the past year. These include copper/lead/zinc in Sichuan; bauxite at Pingguo in Guangxi province; silver in Henan; copper in Xizang (Tibet); copper with potential reserves of more than 8m tonnes in Jiangxi; lead and zinc in the west of Yunnan. The same article refers to recent discoveries of nickel and chrome.

How quickly these deposits will be exploited is unknown. China is importing large quantities of aluminium, copper, nickel, chrome, lead and zinc. Numerous discussions have been held with foreign companies about mining projects, but few substantial contracts have yet been signed. Fluor of the U.S. is conducting an engineering and financing study for a big open-pit copper complex in Jiangxi province; this may be associated with a copper refinery on which Sumitomo Mining of Japan has been working.

Lurgi of Germany signed a framework agreement last November for non-ferrous metals development and the first few projects are now being negotiated. These include new equipment for mining, beneficiation and smelting which would be financed on a compensation trade basis, with ore concentrates and metals shipped from Chioa and marketed by Lurgi's parent, Metallgesellschaft, one of the world's largest metal trading companies.

Two British groups, Charter-CJB and Seltriss Engineering, submitted proposals earlier this year for six mining projects. The former recently held further talks in Peking on four of these projects—a lead-zinc venture in Qinghai, tungsten in Hunan, tin in Yunnan and cobalt in Hainan Island.

It seems that the non-ferrous expansion programme will be phased over a longer period than had originally been intended, but the next few months should show how high a priority China now attaches to this sector. One of the questions remaining to be answered is how the use of compensation trading will be reconciled with China's large internal needs for non-ferrous metals.

G.O.

携手合作 奔向两千

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INDUSTRY

Burdens on the network

What did the London Festival Ballet and the First International Agricultural Machinery Exhibition have in common?

A TRAVEL HOGG ROBINSON

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TRANSPORT

CHINA'S TRANSPORT system is far from adequate even for the present state of its economy. Peking's recognition of this is an important reason for its economic "readjustment" policy.

Since 75 per cent of China's freight is thought to go by rail, this is a serious problem for the railways provide the strategic mobility and logistic support for the army...

Peking has great difficulties to overcome in setting up a satisfactory national transport network. The sheer size of the country—approximately 4,000 km from north to south...

The distribution of the country's raw materials and its pattern of industrial development have added to these problems.

But for political reasons most of the transport effort since 1949 has gone into building links with the western interior.

sources of raw materials, they do not have the infrastructure and skills to develop them quickly. Now that the leadership's main aim is to expand the economy fast, it is concentrating on the east...

The NCGA revealed that the lines east of the Peking-Canton track carry 85 per cent of the total volume of the country's rail freight and over the years these lines have been neglected...

Decision

To try to solve these problems the Railway Ministry recently held a national conference which proposed the reconstruction and repair of old lines...

Even the rail links outside this eastern area are far from satisfactory despite the investment they have swallowed up. China still has only one main north-south line from Peking to Canton.

The railways' burden has been increased by inadequate general planning. For example, the 1.5m tons capacity steel plant at Panzhuo in Sichuan province ships out all its products to Shanghai nearly 1,000 miles away for finishing...



The bicycle is still the major means of transport for the Chinese, with nearly 3m cycles in Peking, a city of 10m people.

north-east China, frequently travelling the whole way by rail, a distance of well over 1,800 miles.

This kind of shortsightedness still persists. One example is the recent planning of the S2m Japanese-supplied steel works at Baoshan near Shanghai.

On the technical side the Chinese are apparently capable of making all their equipment, including electric locomotives.

least four more, plus two which they discussed last year with the Japanese, Peking-Tianjin and Peking-Zhengzhou.

Chinese railway problems appear to stem not so much from lack of technical knowledge, which is adequate for their needs...

Factions

Maintenance is the job of the local railway bureaus which come under the Railway Ministry and during and after the Cultural Revolution these were heavily politicised...

repair of the lines and the loading and unloading of freight, to the point that immediately after the fall of the Gang of Four in 1976 China's most important junction at Zhengzhou had to be put under military control.

Waterway transport in China is traditional and appears to work reasonably well. Since the rivers and canals have already been exploited for hundreds of years, it is unlikely that there will be much expansion.

Aviation is an important means of communication in China (officials at all levels are constantly attending meetings, conferences and exhibitions all over the country)...

In any case, aviation is not significant for freight.

Relevant to China's internal transport is the state of the ports. Foreign ships still experience long delays because of poor equipment and shallow waters...

Containerisation is a general objective, and some containers are to be seen on the docks at Huangpu (Whampoa), the port of Canton.

Containerisation is a general objective, and some containers are to be seen on the docks at Huangpu (Whampoa), the port of Canton.

A need to simplify the planning system

EFFICIENCY

CHINA'S INDUSTRIAL system is plagued by inefficiencies at all levels and it will take a good many years of determined and consistent effort to root them out.

The inefficiencies stem to part from excessive bureaucracy outside the enterprise—the numerous and often overlapping levels of authority, central, provincial and local, whose approval is needed for key decisions.

While the Chinese are now trying to simplify the planning and control arrangements, there must be doubts about whether a genuine decentralisation of authority to the managers of individual enterprises which would imply a greater responsiveness on their part to customer needs...

Within the enterprise the planning system as it has operated so far is not conducive to rational management. Because funds for capital investment and to some extent for working capital have been allocated by the state in the form of grants...

Disrupted

Enterprises do not in general deal directly with their customers or their suppliers of raw materials and components. These functions are handled by other agencies and corporations whose role as intermediary between buyer and seller seems increasingly burdensome and unnecessary.

The internal management of factories was disrupted by the turmoil associated with the Cultural Revolution and the Gang of Four (1966-76). Party Revolutionary Committees made it impossible for senior managers to exercise authority over the workforce...

Although a more normal management structure has now been restored to most enterprises and

bonus systems have been reinstated, it seems that the bad work habits engendered during the 1968-76 period are still widespread; productivity of labour is low.

The Chinese authorities are aware of the need to change institutions and attitudes so that these weaknesses can be overcome. Changes within the enterprise and in the relationship between the enterprise and its supervisory authorities are still being debated...

Managers are to be put under greater pressure to perform efficiently and given greater autonomy in running their factories. One aspect of this is the planned move from grants to loans in the financing of capital investment.

At the same time there are suggestions that the depreciation rate will be increased and that enterprises will be allowed to retain a larger proportion of their profits.

However, according to a recent article in the Peking Review, the new system does not mean that there will be free competition for capital construction according to the principle of profit.

Within large enterprises there are moves to push profit responsibility down to the operating units so that the managers and workers in those units are held accountable for their performance and rewarded accordingly.

In the Anshan steelworks, for example, which has over 200,000 employees, each of the production units which sells to outside customers has its own profit targets.

plans to extend this to plants whose output is used internally and to create new accounting units for maintenance and repair, for component manufacture, for welfare services and so on.

Since the beginning of 1978 Anshan has brought in new bonus schemes. One is a comprehensive bonus for all members of a production unit which fulfils its eight targets.

Targets

A senior manager at Anshan told us that since the introduction of these schemes 49 of the 54 production units had achieved their eight targets, compared with only five out of the 54 in the previous year.

Both the principle and the mechanics of the bonus system are still matters of controversy. They have had a divisive effect in some plants and there have been reports of strikes, with workers demanding that the same bonus should be paid to everyone.

The authorities are anxious that too much stress should not be placed on material rewards. "Political education is essential—if we relied solely on bonuses, conflicts would occur," we were told at Anshan.

Apart from appealing to the workers' revolutionary spirit (Communist Party members are expected to abstain from taking their bonuses or at least to take a smaller amount than they are entitled to), there is publicity for outstanding workers on factory notice boards and in newspapers.

At the industry level attempts are being made to achieve economies of scale through rationalisation and specialisation. Partly because factories

have been unable to rely on supplies of components, there has been a tendency to integrate backwards in castings, forgings and other items. In some sectors a number of units are being grouped together under one general factory which can allocate work on a logical basis and avoid unnecessary duplication.

At the Shenyang Tractor Factory, which has a capacity of about 20,000 walking tractors a year, we were told of plans to close down some small, uneconomic tractor plants (which had been set up during the Cultural Revolution) and to supply the whole of the North East from one source.

As the drive for greater efficiency continues, two doubts persist. One is the possibility of resistance to the introduction of techniques and practices borrowed from the capitalist system. The statement attributed to Deng Xiaoping in the early 1980s—"black cat, white cat, as long as it can catch rats it's a good cat"—was violently attacked during the Cultural Revolution as an endorsement of capitalist methods.

That hostility is certainly not dead, but supporters of Deng argue that some Eastern European countries, such as Yugoslavia and Hungary, have succeeded in introducing elements of the market economy without undermining socialism.

Second, there are vested interests at all levels of the bureaucracy which may prove a powerful obstacle to decentralisation. Even if some streamlining is achieved at the provincial and local levels, high investment and planning matters have to be referred to the centre, where the decision-making process is slow.

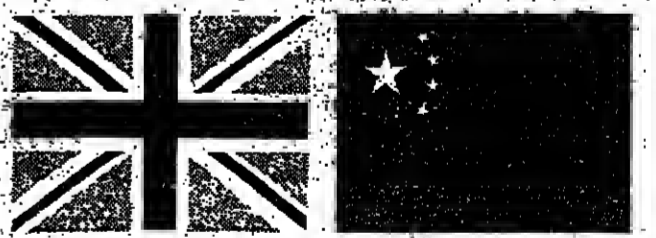
Co-ordination between ministries appears to be weak or nonexistent and conflicts can be resolved only at the very highest level; hence decisions tend to be deferred or not taken at all. The authorities have been urging enterprises to emulate management techniques used in Japan and the West; but it is in the structure of government that the biggest reforms are needed.

G.O.

CHINA'S TRANSPORT PRODUCTION

Table with 3 columns: Year (1977, 1978, 1979), Motor vehicles (units), Internal combustion engines (m.h.p.), Locomotives (units), Freight wagons (units), Steel ships (tons)

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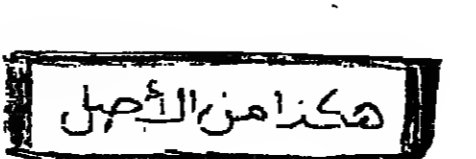


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A plan to correct the imbalances

STEEL

ANSHAN IN North West China is one of the world's largest steelworks. It produced 6.8m tonnes of steel last year and total employment, including the iron ore mines, is over 200,000, more than the whole of the British Steel Corporation put together. Yet Anshan suffers from all the weaknesses which have made steel a major bottleneck in the Chinese economy. The equipment, most of it designed and built in China, is a mixture of old and new. Among the 84 mills and workshops which make up the iron and steel-making complex is China's largest blast furnace and two big 150-ton oxygen converters. But much of the plant is inefficient and there are serious imbalances within it.

Although there are extensive local iron ore reserves, there is not enough ore being produced to feed the blast furnaces. The capacity of the rolling mills is too small to absorb the output of the steel-making shops. Productivity of labour is low, partly because of the disruptions caused during the Gang of Four period but partly also because of the difficulty of managing such a huge, sprawling site.

Since it represents more than a fifth of China's steel-making capacity, the modernisation of Anshan is vital to the Government's hopes for an efficient industry which can meet the

country's steel requirements. At the time of our visit a revised development plan, geared to the three-year period of reappraisal decreed by the authorities, was beginning to take shape.

The emphasis is on correcting imbalances and making the best use of existing facilities. The management is looking for a well-balanced works with a capacity of around 7m tonnes. Some of the open-hearth furnaces will be replaced by a third large oxygen converter. A continuous casting machine will be installed (this will probably be imported) and there are tentative plans for a new wire mill and a tube mill. The iron ore mines are being expanded; some preliminary talks have been held with United States Steel on this. At the same time the organisation of the works is being simplified, with profit responsibility being devolved to the individual units.

Quality

Plans for an immediate and dramatic expansion of capacity have been deferred. This year's budget calls for an output of 6.7m tonnes, slightly less than last year. "During the period of readjustment," we were told, "our aim is to reduce cost and improve quality."

The ambitious project to construct a new integrated works north-west of the present site with an ultimate capacity of 8m tonnes a year, is still on the table and some preliminary work has been done on it, but it is unlikely to go ahead until

the problems of the existing works have been sorted out. The priorities are much the same at the Shoudu steelworks in Peking. Shoudu has four blast furnaces which produced 2.1m tonnes of iron last year. It has a basic oxygen steel-making shop with three 30-tonne converters (designed and made in China) which made 1.2m tonnes of steel last year. It has a bar and rod mill which makes 300,000 tonnes a year of finished products. The plan is to modify and expand the works to create a balanced capacity of 3m tonnes a year.

Davy and British Steel Corporation prepared a joint study on the modernisation and expansion of Shoudu. Davy has been negotiating for the supply of a new blast furnace and merchant mill, to be followed later by a basic oxygen furnace, a continuous caster and a hot strip mill. Although no contracts have yet been signed, there are strong hopes that the business will come to the UK, especially as the Davy/BSC proposals contribute directly to the objective of upgrading the quality of steel produced at Shoudu. Davy would supply the hardware, and BSC the technical services, training and assistance with commissioning and operating the new plant.

The Chinese badly need more steelmaking capacity—last year they imported over 8m tonnes, mostly from Japan—and yet their existing plants have been operating well below capacity, through equipment deficiencies, lack of power or for other reasons.

The outstanding case of bad planning is the Wuhan works in central China: nearly \$500m worth of Japanese and German equipment has been installed but the start-up has been delayed because sufficient power is not available.

The equipment for the Wuhan expansion, ordered in 1974, included a hot strip mill and other plant from a Japanese group led by Nippon Steel, while Demag and other German companies supplied a continuous caster, a cold mill and a galvan-

ising line. The Ministry of Metallurgical Industry is studying several alternatives for supplying power to Wuhan, including a gas turbine power station on which several foreign companies have submitted offers.

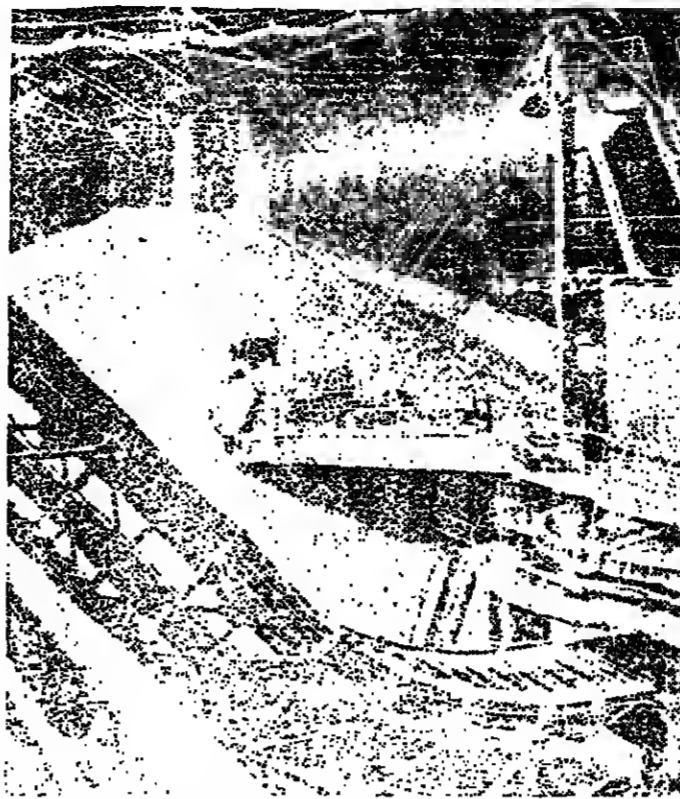
With so much valuable plant under-utilised there is a reluctance to launch into massive new projects. Since the heady days of early 1978, when a target of 60m tonnes of capacity by 1985 was proclaimed, steel has been moved down the list of priorities. As the Minister, Tang Ke, said to us in Peking: "We have got to be realistic." The immediate need, he stressed, was to improve productivity.

How the reappraisal will affect the size and timing of investment in steel is far from clear. After some months of re-negotiation the new Baoshan steelworks outside Shanghai, to be built by Nippon Steel, is now going ahead. This is the biggest single project within the China-Japan trade agreement. It will have a capacity of 6m tonnes a year to be reached in two stages, and is designed to supply the engineering industries of Shanghai, which at present are seriously short of iron and steel.

Complaints

The plan for another new works, at Ji Dong in Hebei province, which was to have a capacity of 10m tonnes or more, appears to have been deferred. This was the project for which a German consortium including Schloemann-Siemag, GHH-Sterkrade, MAN, Siemens and Thyssen had high hopes. With an estimated cost of DM25bn, the Ji Dong works was to have four blast furnaces, each with a capacity of 10,000 tonnes per day, and two oxygen steelmaking shops with seven 330-tonne converters, as well as a heavy plate mill, a hot strip mill and a cold rolling mill. Officials at the Ministry of Metallurgical Industry indicate that the project will go ahead, but on a time-scale yet to be determined.

Yet if the more ambitious projects have been deferred or



A fertiliser store at a Japanese-built chemical plant in Sichuan

Huge orders for plant

CHEMICALS

AT LIAOYANG, 30 miles south of Shenyang in the north-western part of China, some 40,000 Chinese and about 130 foreigners (mainly French) are working to complete one of the country's largest petrochemical complexes. The project is running late, partly because of its size, partly because of design changes and partly because of disruption caused by the Gang of Four.

The contract was placed in September 1973 with a group of French companies led by Technip and Speichim and the complex was due to be in operation last year; commissioning is now expected to be completed by the end of 1980.

The complex includes a catalytic reformer, steam cracker and all the intermediate chemicals for nylon and polyester fibre; the plant is the responsibility of the Ministry of Textile Industry.

In addition to the French companies, which include Rhone-Poulenc, F. Ude, of Germany has built a high-density polyethylene plant and Saam Progetti of Italy a polypropylene plant; both these are completed, awaiting supplies of ethylene and propylene. Virtually all the equipment is imported except for the polyester spinning line and two of the three nylon spinning lines. There are tentative plans for producing polypropylene fibre at a later stage.

The complex has been built on a green-field site, and construction involves the familiar Chinese mixture of ox-carts and modern earthmoving equipment, mostly imported from Japan. As at the Peking petrochemical works, a large satellite town has been created, with its own hospital, schools and department stores. About 300 Chinese were sent to Europe for training. The number of foreigners on the site is expected to reach a peak of about 300 next spring, when commissioning is due to start. If all goes well, they should all have left by the end of the year.

The Liaoyang contract was part of the big wave of orders for petrochemical, synthetic fibre

and fertiliser plants placed in the 1972-73 period. Other big fibre plants have been built at Shanghai, which has already been commissioned, and at Tianjin, still under construction; most of the equipment for these two sites was purchased from Japan and West Germany.

On the fertiliser side by far the largest contract went to Pullman Kellogg, with eight ammonia and eight urea plants; the latter were handled by Kellogg's Dutch subsidiary. The UK's share of contracts during this period was small; Humphreys and Glasgow supplied a methanol plant which forms part of a complex being built by Speichim.

Another wave of ordering began in 1977 and reached a peak towards the end of last year. Again the emphasis is on using China's heavy crude oil as the basis for producing materials needed in agriculture, textiles and light industry. Two of the biggest orders were for aromatics complexes to be built at Shanghai and Nanjing by Lurgi; the latter is associated with the world's biggest polyester polycondensation plant, built by another German company, Zimmer, which is a Davy subsidiary.

Lurgi also won a significant order for a coal gasification plant, to produce ammonia, in Peking; this technology may be used in parts of the country which have coal resources but cannot economically be supplied with oil. All the Lurgi contracts are on the basis of cash payment.

Among British orders are Davy's contracts for two oxo-alcohol plants and a synthesis gas plant and a CJB contract for high-density polyethylene. Pullman Kellogg has won some further business, but the lion's share has again gone to German and Japanese companies.

The Chinese now have a huge construction programme which may strain their management and engineering resources, but foreign contractors believe China now has sufficient experience of building and operating similar plants to carry through the programme successfully.

Year	Crude Steel Production (million tons)
1965	12.5
1970	17.2
1975	35.0
1976	22.0
1977	23.7
1978	31.8
1979 (planned)	32.0

Note: estimated figures for 1965-75, official figures for 1977-79.

of iron ore and coking coal. Although there are large reserves of both these materials, much of the iron ore is of low grade and there has been inadequate investment in beneficiation. Kaiser Engineers and Bethlehem Steel of the U.S. are carrying out engineering studies on two projected iron or mines in Hebei province.

Another problem is the lack of capacity for alloy steels. Discussions have been held with the Japanese and with the UK over plans for upgrading some of China's existing special steel plants and for building new ones. Minister Tang Ke made it clear to us that this sector remained a high priority and that there certainly would be business for foreign companies. More concrete negotiations are expected to be resumed in the next few months.

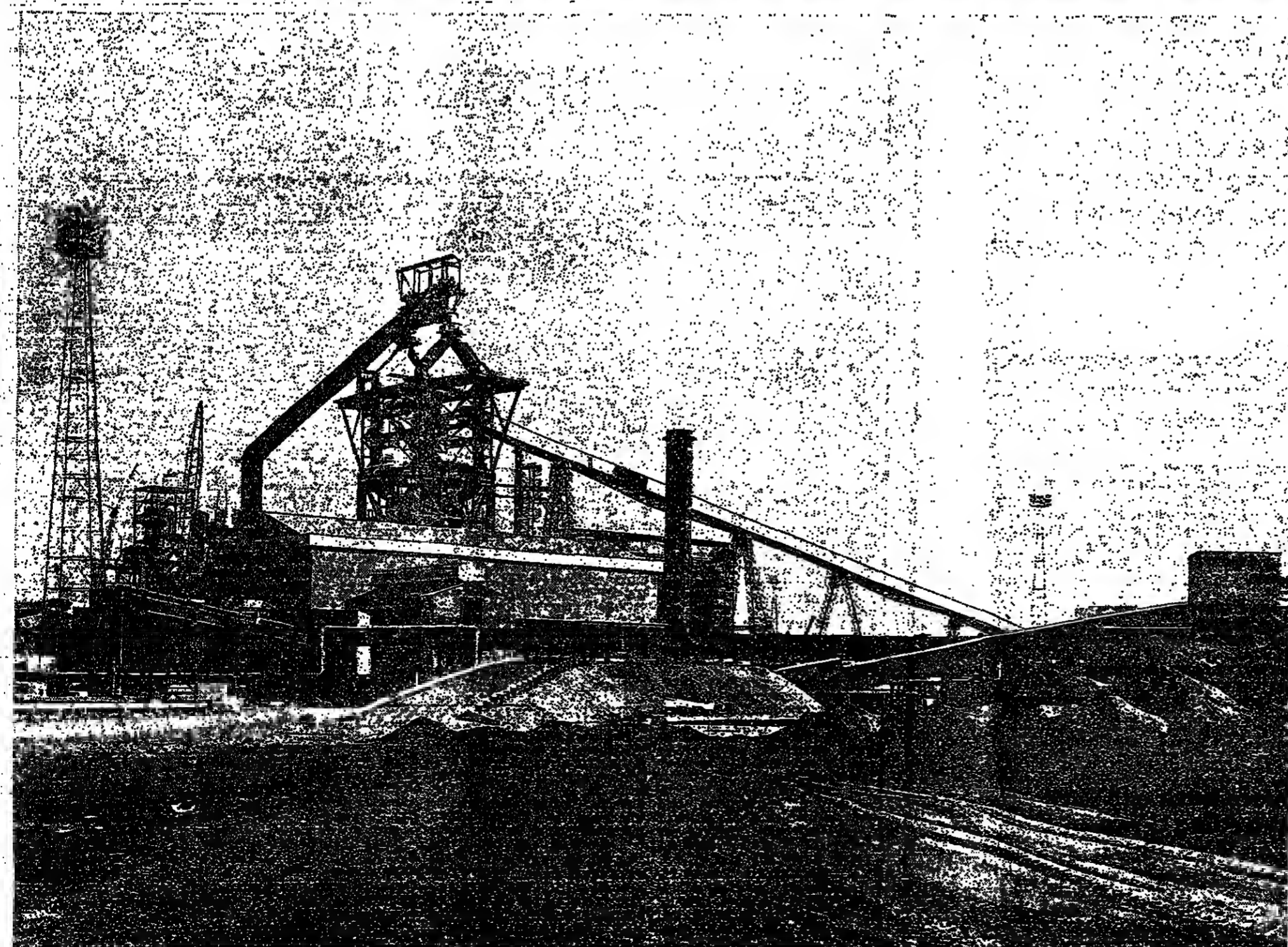
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G.O.

MAJOR STEELWORKS

Location	Estimated capacity (m tonnes)
Anshan (Liaoning)	7.0
Benxi (Liaoning)	1.0
Shoudu (Peking)	1.3
Taiyuan (Shanxi)	1.0
Eastou (Inner Mongolia)	1.0
Wuhan (Hubei)	3.0
Shanghai	4.0

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INDUSTRY

Borrowing ideas from abroad

FOREIGN TECHNOLOGY

AT THE No. 13 radio factory in Shanghai, 100-strong work force, including 300 engineers and technicians, is turning out about 100 computers a year. These are Chinese-designed computers, belonging to two families, the DJS series and the TQ series, some models of which are also manufactured in Peking and other cities. The Shanghai factory, specialising in computers since 1966, is under the direct control of the Shanghai Electronic Computer Corporation, which in turn reports to the Shanghai Bureau of Meters and Instruments. General supervision of the electronics industry is exercised by the Fourth Ministry of Machine Building in Peking, but as in most other sectors centralised planning is tempered by a considerable amount of local initiative. Important users or potential users of computers, like the Daqing Oil Field, play a big part in the development of both hardware and software.

Familiar

None of the managers to whom we spoke had visited computer companies outside China, but they received the technical magazines and were familiar with what was going on. A few foreign-built computers have been imported in recent years (mainly from Japan), and the Chinese engineers are learning what they can from them. But this is not a substitute for the direct foreign collaboration which the Shanghai managers now recognise as essential. Some discussions with potential partners have already taken place.

It was a similar story at the Shanghai turbine plant. But in the 1950s with Czech technical assistance, this factory is now making 50 MW, 125 MW and 300 MW sets. The senior managers admit that

there are still some design problems with these machines; the period between major overhauls, for example, is much shorter with the imported turbine generator sets than with the Chinese machines. The plan is to move towards 600 MW sets during the next five years, and a large new factory is under construction for this purpose. But it is accepted that for the move into the 800 MW era some foreign collaboration is essential. Preliminary talks have been held with General Electric of the U.S., and with the French.

The need for foreign technology is clear, but how much of it will be bought, in which sectors and in what form—these matters are still under discussion. Certainly the Chinese are not going to make themselves dependent on outside technological help as they did during the 1950s, when the Soviet Union provided assistance on a massive scale. China will use foreign technology only when it is necessary to do so. Foreign companies will not be allowed to exercise direct influence over any significant part of the economy. Their participation will normally be that of a contractor, although the distinction between technical advice and management control may be blurred in some cases.

Since the withdrawal of the Soviet technicians in 1960 China's attitude towards foreign technology has fluctuated according to the prevailing ideological climate. The use of foreign technology has been one of the issues in the apparently unending "struggle between two lines," a "red" against "pragmatists," ideological purity against industrial and managerial efficiency. In the early 1960s, after the failure of the Great Leap Forward, there was a big increase in purchases of foreign plant and technology—and again in 1972-75 after the Cultural Revolution. With the rise of the so-called Gang of Four the emphasis switched to home-grown technology and hostility to all things foreign.

The present regime is trying to formulate a realistic approach to foreign technology which does not conflict too violently with Marxist ideas. Self-reliance is the main principle. Vice-Premier Gu Mu told us: "The importation of advanced technology and equipment should be regarded as auxiliary. We can solve most of our problems by relying on the initiative and effort of our workers, engineers and managers."

In importing new technology we will encourage our engineers to assimilate and learn modern techniques—that will contribute to our policy of independence and self-reliance. The desire to assimilate is most evident in the large numbers of Chinese who flock to foreign technical exhibitions such as the British Energy Exhibition which was held in Peking in June. These are accompanied by technical seminars given by the participating companies. It is not uncommon for a lecture to be followed by questions lasting the best part of two days. But there are obvious limits to how much can be learned by this method.

Feasible

The same applies to another technique which the Chinese have used—the copying of imported machines: the Mass Ferguson 35-horsepower tractor was one early example. To reproduce an imported machine may be feasible, but to make it on a large scale and to match the quality, reliability and cost of the foreign manufacturer is a very different matter. China lacks some of the equipment and materials (such as alloy steels) which are available to the foreign company. More important, there is a long-standing weakness in design. Unlike the Japanese, the Chinese have not been able to copy foreign machines and then move on to develop new products, incorporating design innovations of their own. China's ability to absorb foreign technology is limited by the lack of a design tradition and by the shortage of qualified designers, made worse by the disruption of the education system between 1966 and 1976.

What the Chinese lack, writes Hans Hermann, an American observer, "is not the ability to manufacture. They manage quite well with custom-building, hand-machining and small-scale batch production. What they have not mastered are the techniques of modern continuous-flow production processes, 'precise' automation technology, and other organisational aspects of management. In this context, the importation of complete plants, based largely on petrochemicals, fertiliser and synthetic fibres, should have an important educational effect. Although the construction of some of these plants has been delayed, enough of them are in operation to show that the Chinese are capable of running complex advanced-technology projects. But the danger is that these plants, most of which were built on green-field sites (sometimes in remote areas), will become islands of modernity without much spin-off effect on the rest of industry. Virtually all the hardware for the Kellogg ammonia and urea plants, for example, was imported; the Chinese appear to be cautious about using indigenous equipment in these projects, presumably for fear of technical problems which will delay their completion.

The Chinese are modernising their industrial base without excessive dependence on overseas companies; they will need to use foreign collaboration in a variety of different ways. For example, the manufacture of petrol and diesel engines is spread over a number of plants and models with outdated designs and poor economies at scale. Both engine assembly and in-core production. The modernisation of the farm machinery industry is a high priority and there is an urgent need for more efficient diesel engines.

The British engineering consultants, Ricardo, are advising the Chinese on specific design and on overall engine policy. China is also likely to seek assistance from foreign engine and equipment manufacturers. This may involve licence deals, the purchase of equipment and complete plants and possibly joint ventures, particularly if the permit imported technology to be paid for by exports.

In some respects the agreement with Rolls-Royce on the Spyc engine is a model which the Chinese may seek to use in other sectors—establishing a partnership with a foreign company which is an acknowledged leader in its field, drawing on its technology and advice to update existing designs and manufacturing facilities. For the foreign company the drawback to this arrangement is that it is usually more interested in selling hardware than in transferring technology. For the Chinese the problem is the lack of qualified engineers, capable of absorbing the new technology. Training provided by the foreign company is a partial answer, but the long run will require a great improvement in the quantity and quality of scientific education, especially in the universities and at the post-graduate level. G.O.

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MANAGEMENT

CHINESE MANAGERS, like university professors and others holding senior positions suffered badly during the period of the Cultural Revolution and the Gang of Four. They were largely deprived of their authority and in some cases relegated to the shop floor. Power was in the hands of Revolutionary Committees which were more interested in ideological purity than in running an efficient enterprise. Since the fall of the Gang the role of the manager has been re-established. Senior executives, though still contending with great obstacles and frustrated because of them, have recovered some of their self-confidence as well as their authority. Most of the managers to whom we spoke during our visit showed as much enthusiasm and determination to improve profits, productivity and quality as their Western counterparts. The question is whether the Chinese system will allow them to do so.

In most enterprises the dual structure which prevailed before the Cultural Revolution has been restored. On one side is the factory's Communist Party committee, whose secretary is regarded as the most important man in the plant. The Party secretary is responsible for representing the Party's policies and objectives to the enterprise and for ensuring that they are understood at all levels and carried out. He is sometimes said to be responsible for political education, but at the same time he participates in major investment and technical decisions. All important decisions—for instance on the figures to be included in the annual plan, proposals for the purchase of

new capital equipment, the installation of a new incentive scheme—have to be approved by the Party committee, which meets at least once a month. The director of the enterprise, who will normally be a member of the Party committee and is sometimes its deputy secretary, is responsible for the day-to-day operation of the plant. He, and his deputies will meet at least once a week to review the progress of the factory. His deputies may be in charge of particular manufacturing departments or have functional responsibilities for production, quality control, finance, personnel and so on.

The relationship between the Party secretary and the director is clearly crucial. In some respects their roles appear to be not unlike that of the chairman and managing director in the conventional UK board of directors. One of the tasks of the Party secretary is to look after liaison with external bodies—for example, with the various planning authorities with which the enterprise has to negotiate. (In the Anshan steelworks the Party secretary is also a vice-minister in the Ministry of Metallurgical Industry.)

Discretion

Managers will say "we practise collective leadership," and the extent of the director's discretion must vary from enterprise to enterprise. In the Shanghai Leather Shoe factory, which has about 800 employees, the nine-member Party committee considers the big issues like the appointment of department heads and next year's production plan. The Party secretary, apart from his activities outside the company, spends a good part of the day talking to workers at different levels, listening to their suggestions and complaints and generally concerning himself with the welfare and morale of the staff. He is in regular contact with the director (one has an upstairs office, the other downstairs), but does not interfere in day-to-day management.

The Party committee contains some shopfloor workers, but the workers' congress is said to be the main vehicle through which employees influence the management of the enterprise. Some sort of balance appears to be struck between the Party committee and the workers' congress. "If we relied too much on the Party committee," we were told at the Shanghai Turbine plant, "the initiative of the broad mass of workers would not be brought into play. If we relied too much on the workers' congress, there would be a danger of anarchy."

A recent article in the Workers' Daily called for more enterprises to establish workers' congresses. The leadership (of the enterprise) must inform the workers' congresses about the finances and planning of the enterprise as well as about its activities and problems, and should ask them for criticism and suggestions. The article notes that in some enterprises workshop directors, section chiefs and group leaders have been elected by the workers, and this has brought about closer relations between enterprise management and workers. There have been recommendations that direct election by workers should be applied to the senior directors, but this had not happened in any of the enterprises we visited.

Foreign companies operating in China argue that the Chinese management system leads to a confusion of responsibilities and a lack of a clear-cut chain of command. "There is too much scope for group discussion and not enough direction by senior managers." The Chinese authorities appear to accept this criticism. In line with the more welcoming approach to foreign technology there is a realisation that adoption of foreign management methods is essential if the best use is to be made of imported plant. Visitors from overseas have told Chinese officials that output in some plants could be increased by as much as 5 per cent through a clearer and more rational allocation of responsibilities. An Association of Enterprise Management was set up in Peking earlier this year to study management systems an experience in China and abroad.

For all these developments will enhance the status of the professional manager remains to be seen. Most of the managers whom we spoke were hopeful.

It was, of course, frustrating for the managers at the Shoude steelworks in Peking not to be able to buy even minor items of capital equipment without the lengthy process of filling up forms and arguing their case with officials at the Ministry. It was frustrating to be unable to exchange through exports, but not to be able to use a cent of it to buy imported equipment. Even if it would have a useful impact on production efficiency, it was frustrating too not to have direct dealings with the plant's foreign customers and discuss market conditions with them so that they could see the strength of the competition and have a better appreciation of market needs.

It is often said that the modernisation of Chinese industry is primarily a matter of management. But this is not true, as they would see the strength of the competition and have a better appreciation of market needs. It is often said that the modernisation of Chinese industry is primarily a matter of management. But this is not true, as they would see the strength of the competition and have a better appreciation of market needs.

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West is exploring offshore waters

OIL

ENERGY, THE Chinese say, is a priority sector. But within that sector it is offshore oil exploration that is getting the greatest priority.

Western oil companies are now carrying out seismic surveys in about eight concession areas spread across the Yellow Sea and the South China Sea.

Agreements with Atlantic Richfield and British Petroleum were rapidly followed in the first half of the year by contracts for seismic exploration with other western companies. The companies expect to hand over the seismic data and their interpretation of the findings by the end of March 1980.

Peking is working on a new law setting out the terms under which foreign companies can explore and develop. The industry hopes that this will be ready this winter. If it is, and the Chinese are happy with the interpretation of the seismic data, then they could denigrate offshore blocs and open them up to international bidding by next summer.

This would mean that exploratory drilling could get underway by late summer. More likely the Chinese will want more time to make the necessary complicated assessments and drilling will begin in 1981. Western companies believe the Chinese will opt for some form of production sharing contract. China's decision to open up its offshore waters has created a tangible pattern of excitement among western oil companies as the China coast is one of the few promising offshore areas in the world that has not been explored. On the Chinese side, the sharp break with past ideological hostility to involving western companies in resource development reflects Peking's belief that the potential of large oil exports offers the greatest promise of a sharp increase in foreign exchange earnings. Indeed, it seems likely that the Government will continue to postpone decisions on the scale of capital equipment imports in the coming years until it has a better idea of what its oil resources—and hence its borrowing capabilities—will be.

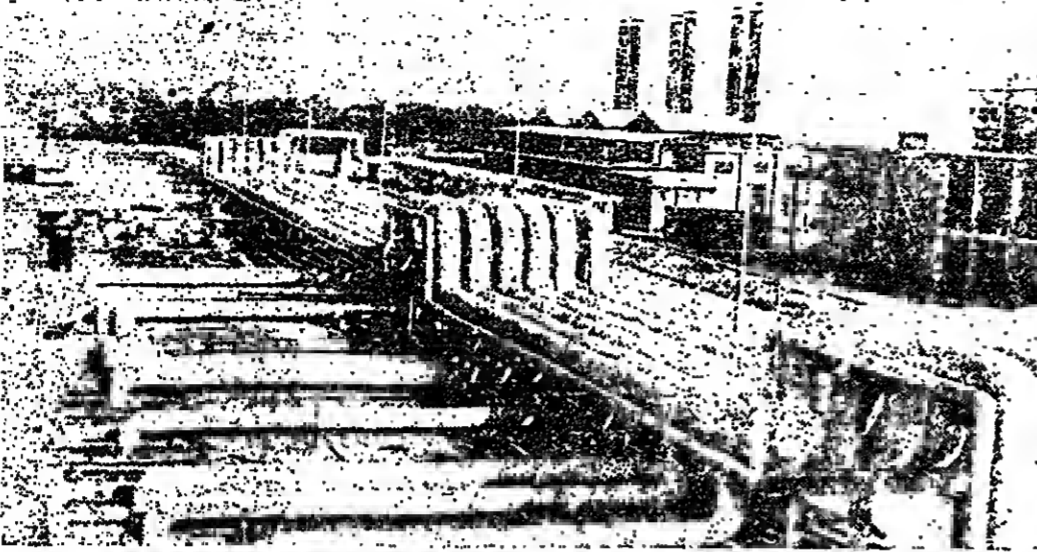
Evidence

The CIA's 1977 estimate—based on scanty evidence—is that offshore reserves are likely to be of about the same magnitude as onshore reserves or roughly 89bn barrels. This would mean total reserves of about 78bn barrels. Until China decided this year to seek western help, there has been no systematic survey of the offshore waters. China's own seismic surveys have been unmethodical and of only moderate quality by western standards. The Chinese are now anxious that their own personnel get training on the equipment being used by western companies.

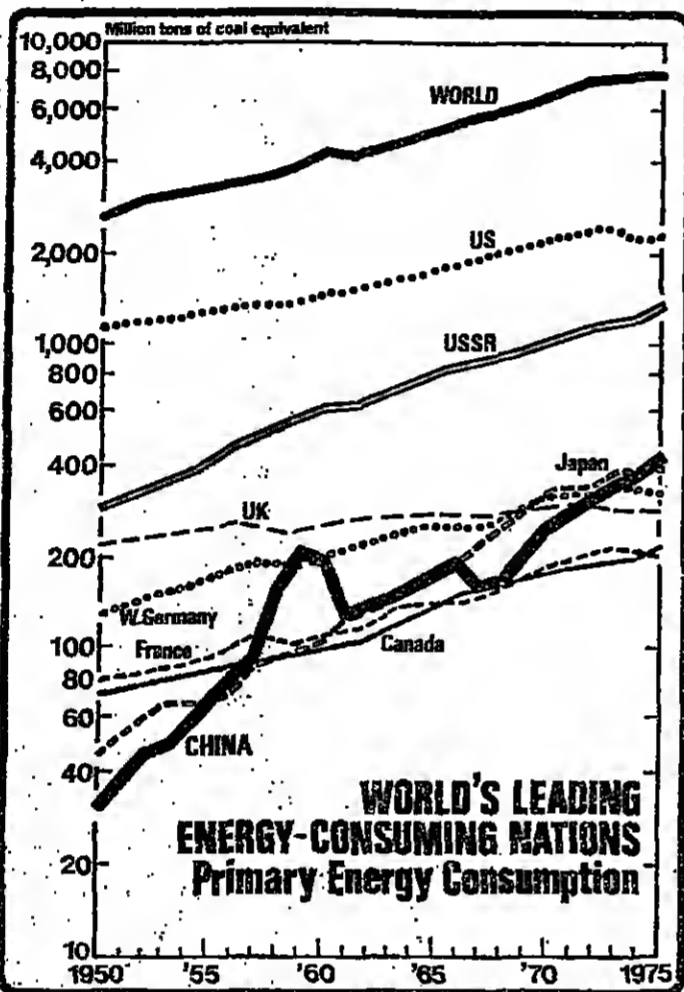
They are also buying more western oil technology themselves. Between October, 1976, and December, 1978, they spent about \$500m on imports to develop their oil and gas reserves. This has included at least three survey vessels, six jack-up drill-jig rigs, six helicopters for supplying rigs and six supply vessels. Offshore purchases have been mainly from Norway, Japan, the U.S., Singapore and France.

British Petroleum and Elf Aquitaine are surveying adjacent areas in the Yellow Sea. The agreement with BP—which is operator for a group of 18 companies—was signed in February and was initially estimated to involve seismic work costing \$6m with no guarantee that any of the partners will be able to undertake drilling work. By late June five transmission and monitoring stations on the Chinese coast needed for positioning survey vessels had almost been erected. In spite of Chinese hesitation at foreigners working on a sensitive part of their coast and even stronger dislike of the continuous shore-to-ship radio traffic involved.

Exxon, Mobil, Caltex and Phillips are operators for four areas in the South China Sea. Atlantic Richfield has an exclusive survey programme



A pumping station on the Linyi Nanking oil pipeline at Yicheng in Kiangsu province



The above chart can be read in two ways: (a) as a measure of the political instability in China since 1952 as compared with that of major powers or (b) as an illustration of China's growing importance as a consumer of primary energy. Vaclav Smil, from whose essay "China's Energetics: a Systematic Analysis," it is reproduced, uses it to make the second point. He says, however, that Russia and the U.S. were the only two countries in 1975 to have surpassed primary energy production of 500m tonnes of coal equivalent (mte). Both found that beyond that level the problems of further expansion slowed down the rate of growth. China's primary energy production has now passed 500 mte. Beyond 500mte, Russian primary energy production grew at 6.7 per cent a year. "Chinese Economy Post-Mao: Joint Economic Committee Congress of the United States."

south of Helian island and Amoco is the operating company in a survey to the west.

All the participating companies are in effect working without charge—almost unprecedented in the oil industry—in the expectation that they will stand a better chance of securing blocks for further exploration and development when the Chinese put them on offer. BP has been told that their area adjoins an onshore structure to which the Chinese have found a commercially viable oilfield.

With a maximum water depth, for instance, in the area BP is surveying of 220 feet, the time lag between discovering a field and bringing it on stream could be as little as 1-2 years. That means that oil from the Yellow Sea or the South China Sea could be flowing by mid 1982. But the Chinese have still to make up their minds on the terms of an exploration and development law. Also they have to decide on the pace at which exploration is to proceed. What the industry fears is that they will let off a great number of blocs at the same time, causing a rush on rigs which would greatly increase the cost of exploration and development as happened in the North Sea.

The possibility of long delays has been strengthened by the Japanese experience in the Gulf of Bohai. Having

reached an initial agreement with the Chinese to appraise and develop known deposits in the shallow waters of the Gulf, further negotiations ran into deadlock. Disagreements arose over the financing of the venture and the interest rates on Japanese loans.

The quantities of oil that China will have available for export in the 1980s will depend not only on the success of the offshore programme but also on the pace of onshore development and the strength of domestic demand.

The CIA summed up its 1977 study saying: "On balance we believe that China will produce 2.4-2.8m barrels a day by 1980. Most of this oil will be needed for domestic consumption; exports are likely to be only 200,000-600,000 b/d. Within a decade or so, continuously expanding domestic demand will absorb total capacity unless deposits in the west or offshore are proved and exploited much more rapidly than expected."

Difficulties

In 1979 China produced 2.09m b/d, which was 11 per cent higher than in 1977. But the rate of increase in production last year is well below the 20-25 per cent a year that China achieved in the decade 1965-75 as a result of heavy investment in oil at the expense of coal. Oil output was up only 3.6 per cent in the first six months of 1979 as against the same period for 1978. This slowdown in the rate of growth would seem to reflect difficulties that the Chinese have run into exploiting their existing fields as well as some attempt to slow down the pace of domestic consumption. The main technical difficulties are believed to be setbacks in secondary recovery through water injection in the major Daqing field and the obsolescence of much of China's exploration, production and refining equipment.

In 1975, nearly 80 per cent of China's production came from three fields in the north and north-east—Daqing, Shenzhi and Dakang, all developed with Russian designed equipment—with Daqing alone responsible

for 54 per cent of output and 85-90 per cent of crude oil exports. Most of the oil from this area is a heavy waxy crude that needs catalytic cracking, for which few refineries outside China are equipped.

Chairman Hua in the plan he announced to the National People's Congress in 1973 declared that China must develop another 10 major oilfields comparable to Daqing by the end of the century, which implied a production goal of 10m b/d by the year 2000. The goal of another 10 Daqing has been tacitly dropped.

Peking has since claimed to have discovered a major new oilfield in western Xinjiang on the edge of the Tarim basin, and there have been some reports of China's shifting much of its onshore development to the west. The snag is that the cost of piping oil from the west to the industry of the east would be prohibitive. China has also announced discoveries in the Gulf of Tonkin, hinted that it has made finds near Shanghai and claimed sizeable deposits in the Gulf of Bohai. But at present rates of production and development it would seem that the CIA's estimate of 2.4-2.8m b/d production by 1980 is too optimistic. On the other hand the prospects for higher rates of production in the mid and late 1980s through the faster development of offshore fields have sharply improved.

Domestic consumption in 1978 amounted to 1.7m b/d, which was 3.3 per cent up on the previous year but well down on the average 9.5 per cent annual increase for the years 1973-78. The slower rate of increase last year came at a time when industrial growth was running at the high level of over 13 per cent. This would suggest that the Chinese are making strong efforts to check domestic oil consumption and increase exports, mainly by substituting coal for oil-fired power stations. There is still plenty of room for this. Oil as a proportion of primary energy produced in China rose from 3 per cent in 1952 to 20 per cent in 1977, reflecting in part China's heavy investment in oil-fired power stations. But domestic demand for oil can nonetheless be expected in future to grow more sharply than last year as industrial growth gains momentum, road transport expands and there is increased mechanisation in the countryside. China could easily be consuming 2.5m b/d by 1985.

China's net oil exports, both crude and products, for 1978 amounted to 380,000 b/d, compared with 250,000 b/d in 1975. In 1977 China earned \$1bn from oil or the equivalent to 13 per cent of export earnings.

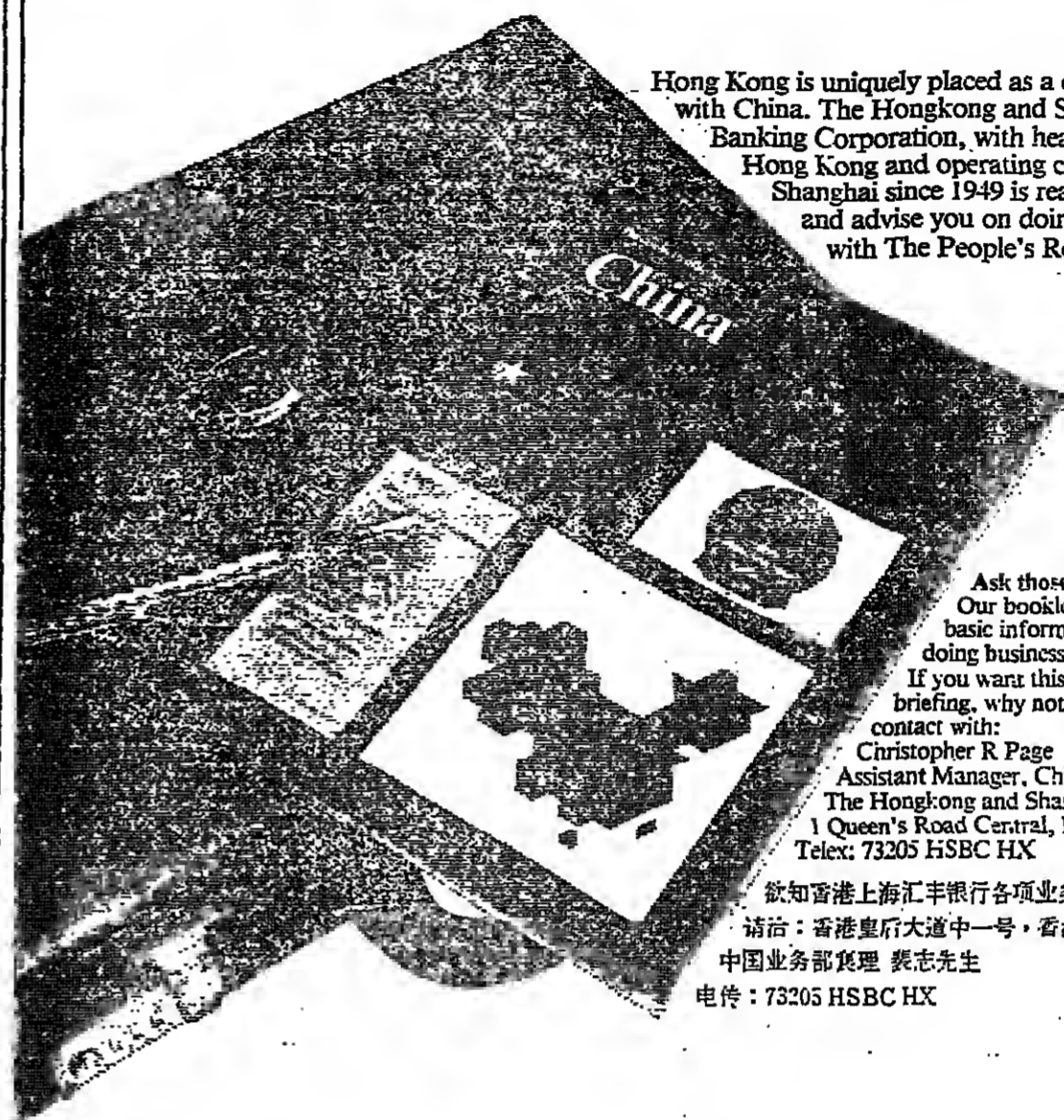
The Chinese have consistently moved their prices in line with OPEC's. The bulk of their oil has been sold to Japan, with smaller deliveries also to Britain, Korea, Thailand and Singapore. The long-term trade agreement with Japan calls for deliveries of crude of 150,000 b/d this year, rising to 200,000 b/d by 1982. The Chinese have also made a deal with Brazil that provides for exports of 20,000 b/d this year, rising to 30,000 b/d in 1980, in exchange for pig iron. A small contract has also been made with the U.S., and China continues to look to sales to Hong Kong and South East Asia.

In the next few years China is unlikely to expand its oil exports significantly beyond the relatively small quantities now available given the constraints on increasing domestic production matched by the rising pace of domestic demand. Hopes for substantial exports of oil by the mid 1980s are pinned entirely on the uncertainties of what the international companies discover offshore. At this early stage the prospects there are described by one expert in the oil industry as "moderately encouraging." The strength of the interest in the oil industry in the area suggests that this estimate may be unduly cautious.

"China Oil Production Prospects CIA 1977."

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欲知香港上海汇丰银行各项业务详情，
请洽：香港皇后大道中一号，香港上海汇丰银行
中国业务部 蔡志先生
电传：73205 HSBC HK

The Hongkong Bank
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This was how Wilhelm Merton, founder of Metallgesellschaft in Frankfurt, described the style of his Company. A spirit of enterprise, stability, watchful observation of the market and shrewd planning provided even at that date the impetus for the launching of Metallgesellschaft as a worldwide organization for international trading in metals and ores. Today the Frankfurt Company, with its research, mining, smelting, processing, engineering and plant contracting, as well as transport operations, is one of the leading trading concerns in the world.

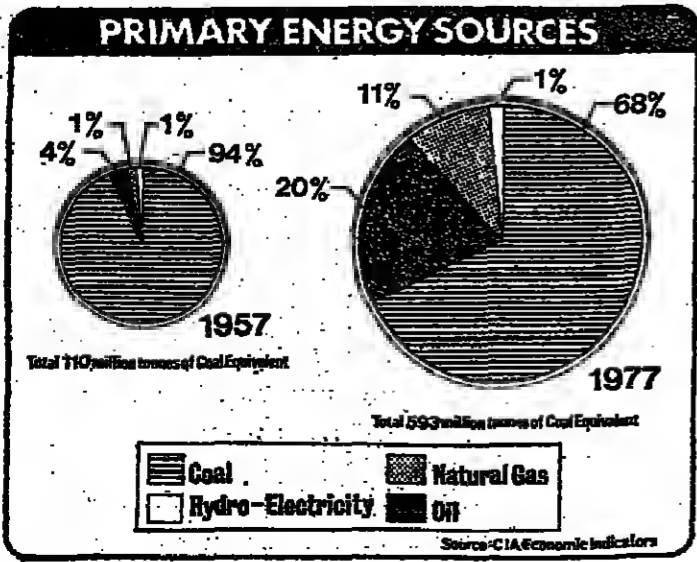
In the world of today, a good show is no longer performed discreetly, behind the scenes. This also holds good for the trading activities of Metallgesellschaft. Backed by tradition, experience and a considerable financial potential, the experts of Metallgesellschaft are also active at the LME on behalf of the firms of their own Group and of international customers

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The going is hard

FOREIGN CONTRACTORS

DON'T IMAGINE that China is going to be a bonanza for the foreign contractor. It's a difficult and demanding market and it's only worth going in if your technology is strong and you're prepared for the long haul, says a British contractor.

He adds "You may have to graft away for several years, spending a lot of money in the process, before you see any real business."

The Chinese are experienced negotiators who do not take unnecessary risks. They like dealing with companies they know and trust. When they are thinking of doing business with a newcomer they want to satisfy themselves about his track record. They do their homework thoroughly. In some cases they decide that one or two countries are leaders in the relevant technology—Japan and West Germany in steel-making plants, the U.S. in large iron ore projects, Britain and West Germany in coal mining—and limit the choice of contractors accordingly. But this does not necessarily mean that the contract is placed quickly.

"It can take at least a year between the first riddle and serious negotiations about a contract, with numerous delegations going to and fro. But when the Chinese start negotiations, they are businesslike and straightforward. They can drive you mad on price, but they can be more flexible on the details of the order than most of the East Europeans."

Before placing the latest batch of contracts with Lurgi the Chinese made a very careful study of what the company had to offer. "They gave us business in precisely those areas where we knew we were strong and avoided those where we were weak," says Dr. Dietrich Natus, Lurgi's chief executive. "They have excellent knowledge of the Western market."

In pre-contract discussions the Chinese expect patience and mutual respect. Mr. John King, manager of Pullman Kellogg's China operations, says: "One must realize the system does not move quickly. One must always act reasonably. We all know we should be slow to anger. With the Chinese one must be even slower."

Lengthy

Negotiations may well be lengthy. "If you are sending a team of negotiators, send only senior, technically competent people. And give them the authority to take decisions if they have to. Send them without a fixed time schedule. Make their commitment to the negotiations their only commitment for as long as negotiations continue."

Trust and mutual understanding are only built up over time and this is one of the reasons why the Chinese have a high regard for companies like East Asiatic and Krupp which have made a long-term commitment to trade with China.

For the contractor selling technology or complete plants direct negotiations are normally held with the China National Technical Import Corporation (Techniport), with an active role played by the Ministry

which will operate the plant. But one of the frustrations is the difficulty of knowing precisely where the decision-making authority rests.

Major purchases of foreign technology have to be approved by the State Planning Commission and it is at that level that some companies have directed their lobbying efforts.

It is difficult to tell from job titles what authority a particular Minister or official may have. Even after the contract has been signed the contractor finds the number of agencies involved somewhat bewildering. "We are introduced to the director of this or that corporation or bureau, but we are never quite sure where he fits into the hierarchy or who his boss is—and we doubt whether the Chinese do either."

When work on the contract begins, companies have to be prepared for far more detailed discussions than they would expect in the U.S. "They hire you for your technical know-how, but you still have to prove the validity of your technical proposals," says Mr. Les Trew, project director for Kaiser Engineers, which is providing engineering services for a big iron ore project at Sijaying in Hebei province. Review meetings which take two-three days in the U.S. may take at least three weeks in China. They are attended by hundreds of engineers who are very knowledgeable and want a full explanation.

Mr. Trew comments that although some of these engineers "know more academically than I do" about ore beneficiation, they have had no practical experience of the processes or the equipment. "They

are taking a quantum leap in technology."

In implementing projects companies may have to contend, not only with the bureaucracy, but with the deficiencies in China's infrastructure. Transporting heavy chemical plant into Shanghai, by barge up the Yangtze and then to a remote site where the utilities and housing are being created from scratch—that is a formidable undertaking and even the Chinese may underestimate the difficulties. Scheduling problems can be aggravated by the failure of Ministries to co-ordinate their respective roles.

For the foreign engineer who stays on the site for months China has to be regarded as a hardship post. In one major contract the foreign technicians were allowed one week's rest and relaxation in Hong Kong every six months—more onerous conditions than are normal in, say, the Middle East. The sense of isolation is greater in China, where the Chinese engineers and managers, though always considerate and courteous, are discouraged from mixing socially with foreigners.

Aspect

Another aspect of the isolation is that contractors are given no more information by the Chinese than is necessary to carry out their particular contract: there is no general gossip about what other companies are doing or about the state of the industry. (Some foreign companies are not unhappy about this, since they can be sure that their own commercial and technical information is not being passed on to anyone else.) When companies send negotiators and technicians out to China, they have to be sure that they are temperamentally as well as technically qualified for the job.

Normal office accommodation in Peking is not available, but a

number of companies have booked suites of rooms in one of the main hotels on a semi-permanent basis, staffed either by their own representatives or by locally hired Chinese-speaking expatriates. One Hong Kong company reckons to be spending about \$50,000 a year on a three-man "office" including a locally hired secretary/office manager. Another is fortunate enough to have hired a Chinese who has good personal connections inside the bureaucracy and so is able to arrange appointments for visiting executives.

The accommodation problem will be eased if and when the proposed Foreign Trade Centre is built. An American consortium, consisting of Kaiser Engineers, Turner International and Gerald D. Hines International, won a contract in March to design the Centre, which will include an office tower 40-50 storeys high, an 800-1,000-room hotel, a convention centre and living quarters for 600 foreign trade personnel and their families. Construction is due to start next year, with completion scheduled for 1982.

Commercially, however, conditions for the foreign contractor could get more difficult. As China seeks to conserve her foreign exchange, payment arrangements may become more complicated, involving compensation trade, direct equity investment, more local procurement, assistance with exports of Chinese-made products and perhaps forms of technology transfer in which the foreign partner will see little scope for profit.

Yet the attractions of the market remain: China's long-term need for foreign technology, her raw material resources and vast home market, her record of prompt payment and honouring contracts to the letter. A good many companies are convinced that if they are patient, persistent and flexible, the rewards will come.

G.O.

JOINT VENTURES

ONE ELEMENT in Lenin's New Economic Policy in the early 1920s was the attempt to enlist the aid of foreign capital, through joint ventures, in the development of the Soviet Union's raw materials and in the manufacture of industrial and consumer goods which the country needed. Although the policy was not successful and few agreements with foreign companies were concluded, Lenin's example provides a partial ideological justification for China's new law on joint ventures, adopted by the National People's Congress last month. Whether the law will have any more lasting consequences than the Soviet decree on foreign concessions, passed in November 1920, should become clear over the next few months.

China's law provides that foreign companies will be able to set up limited liability companies jointly owned with Chinese enterprises, subject to authorisation by a new body, the Foreign Investment Control Commission; another new body, the China International Trust Investment Company, will co-ordinate the use of foreign investment and technology. The foreign partner will normally hold not less than 25 per cent of the capital (no upper limit is stated) and he may contribute "cash, capital goods, industrial property rights, etc." as his investment in the venture. The foreign technology or equipment has to be "genuinely advanced and appropriate to China's needs."

A joint venture equipped with up-to-date technology may apply for a reduction of, or exemption from, income tax for the first two or three profit-making years. If the foreign partner conveys his share of the profit in China he may apply for a partial rebate on income taxes paid. The law provides for the remittance overseas of profits and of salaries earned by foreign employees in the joint venture. As for the management, the Chinese partner will appoint the chairman and the foreign partner one or two vice-chairmen.

The law on joint ventures is a logical development from other forms of co-operation with foreign companies which have been put into operation over the past two years and particularly since the spring of 1978; all these arrangements are designed to permit the introduction into Chinese industry of foreign equipment and know-how in a way which minimises the expenditure of hard currency. The simplest form is processing on consignment, whereby a foreign company supplies raw materials to be processed in China for a fee. In product buy-back or compensation trade agreements

the foreign partner supplies capital equipment which is paid for in goods manufactured by that equipment. For example, in August last year Itoiman, a Japanese trading house, signed a deal with the National Textile Import and Export Corporation whereby it would supply 100 modern sewing machines and 15 technicians to a Shanghai apparel factory and receive in return 300,000 suits of pyjamas and a certain number of blouses every year for five years. Cotton will be purchased in China and the garments will be sold under Itoiman's brand name; the production in China will replace part of Itoiman's supplies now obtained from South Korea and Taiwan.

About a score of other Japanese companies have made similar arrangements, mostly in textiles and garments but also covering electronic products such as digital watches. Companies in Europe and the U.S. have also made compensation trade agreements, but the most active have been Chinese entrepreneurs based in Hong Kong, for whom China provides a much needed source of cheap labour and land. There are thought to be between 400 and 500 companies which have either started production in China on the basis of compensation trading or are negotiating to do so. Most of these projects are very small, employing on average between 30 and 70 people, and there is a natural preference for the Shenzhen area just across the border from Hong Kong.

Discussion

Compensation trade may be used as a means of financing major investments in new mines for coal, iron ore and non-ferrous metals; proposals for bauxite development and aluminium smelters are believed to be under discussion along these lines with European and American companies. But the joint venture formula seems intended by the Chinese authorities for a different purpose—to inject foreign technology into manufacturing industry, particularly but not exclusively light industry.

Vice Premier Gu Mu told us in an interview that joint ventures would be especially welcome in such fields as electronic instruments, meters, digital watches, computers and domestic appliances. One proposal which was well advanced even before publication of the law is for the manufacture of tape recorders in Shanghai by a Japanese company, Toho Denki. This proposal, which was negotiated with the China National Light Industrial Products Import and Export Corporation and the Shanghai Electronic Equipment Industry Corporation, provides for production to be split equally between exports and domestic sale.

Although levels of technology are relatively low there is a substantial electronics industry already in existence in major

cities like Tianjin and Shanghai. There is certainly scope for introducing up-to-date designs and manufacturing techniques into these factories. But the question which a number of foreign companies are asking is whether it is possible to achieve the level of quality and cost necessary for competition in the world market. China's advantage of low wages is largely offset by poor productivity, and some foreign companies are doubtful of their ability to increase productivity by a sufficient margin, even allowing for the introduction of incentive payment schemes. There are fears about the ability of the foreign executives to cut through the Chinese approach to management, described by a Hong Kong businessman as "a never-ending system of consultation and discussion."

The fundamental question, the answer to which will only come through experience of joint ventures, is whether the Chinese political and economic system can accommodate the presence of capitalist-inspired enterprises, geared to profit and to the market. While the human material is certainly trainable, the sceptics believe that the "system" will prove an insuperable obstacle; they prefer the less risky device of compensation trade, where their "investment" in the form of capital equipment is paid for in goods whose price and quality is contractually specified.

Amid all these doubts it would be surprising if the growth of joint ventures was not slow and halting. Yet the potential of China as a manufacturing base from which to attack Asian and other export markets cannot be ignored. For European and American manufacturers, eager to find a way of competing against the Japanese in South-East Asia, China may hold the key. As Taiwan and South Korea follow Hong Kong's example in moving up-market, the attractions of China as a low-cost production centre may increase. Some European companies believe that there may be scope in China for motor-vehicles and other engineering products which are produced in volume, using large amounts of labour and relatively mature technology.

Much will depend on how the Chinese authorities fill in the details of the new law and how they respond to the first proposals from foreign partners. Mr. Owen D. Nee, Jr., an American lawyer in the Hong Kong office of Coudery Brothers, who has been actively concerned in the discussions leading up to the new law, believes that it will be followed in due course by a patent law, a copyright law and in a few years' time by a full commercial law; he also expects China to join some of the major international trade conventions. If this forecast is correct, the legal framework for the foreign investor will become steadily more acceptable.

G.O.

Cutting through the red tape

Why you should consult the bank that placed 3100 dots on the map of Holland.

The Centrale Rabobank heads a co-operative banking organisation with 3100 offices in Holland alone, providing on-the-spot services geared to local requirements in every part of the country.

40% of Dutch savings is entrusted to the Rabobank and, as a matter of fact, 80% of the balance sheet total consists of funds entrusted. This places the Rabobank in an ideal position to satisfy international financing requirements on a short, medium or long-term basis.

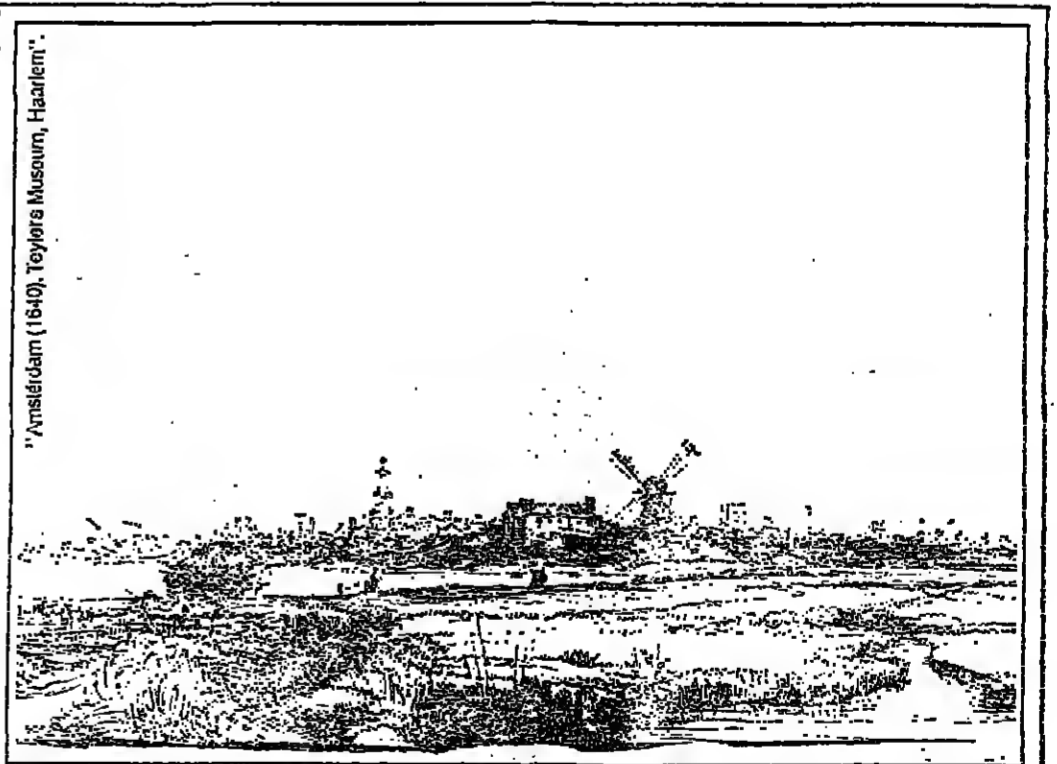
The Rabobank has a strong agricultural background. Deeply rooted in this sector for over 80 years, the Rabobank not only finances 90% of all loans to the agricultural sector but also plays a key role in major agribusiness projects, both at home and abroad, with participations in the Agribusiness Group Holland and the Latin American Agribusiness Development Corporation S.A. (L.A.A.D.).

With a complete range of banking services and powerful affiliations—the UNICO BANKING GROUP and London & Continental Bankers Ltd.—the Centrale Rabobank is fully active in international financial transactions, including involvement in the Euro-currency and Eurobond

markets, foreign exchange, Euro-credit loans and new issues.

A combined balance sheet total of more than 74 bil-

lion Dutch guilders, as per December 31, 1978, (approx. U.S. \$ 37 billion) places the Rabobank among the 30 largest banking institutions in the world.



Rembrandt country is Rabobank country. The country which inspired Rembrandt's internationally acclaimed masterpieces has inspired the Rabobank to create services of worldwide importance.

For more information: Centrale Rabobank, International Division, Catharijnesingel 20, P.O. Box 8098, Utrecht, The Netherlands. Telephone 030-36 26 11. Telex 40200.

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UK COMPANY NEWS

Dunbee-Combex may hive off DIY side

Dunbee-Combex-Marx, the toy group whose profits fell sharply last year, is considering...

BOARD MEETINGS

Table listing board meetings for various companies including Anglo-Siam, Anglo-Siam, Anglo-Siam, etc.

Because of the rapid growth of its toy business, Dunbee has not...

Decco chain of DIY wholesale cash and carry centres, the largest in the country...

Spillers Board says wait

Spillers has followed up its immediate rejection of last week's £73m bid from Dalgety...



Sir Lindsay Alexander, chairman of Ocean Transport and Trading, which is tomorrow due to announce interim results for 1979.

London listing for Esselte

SHARES of Esselte, the Swedish office equipment, packaging, printing and publishing group...

Siebe Gorman set for growth

THERE are clear indications that Siebe Gorman Holdings is continuing to grow both at home and overseas...

The chairman believes that the current year will again manifest the progress that we have all come to expect of the group...

CGFA will acquire the mineral leases and AMC the plant equipment and facilities...

Specialist insurance broker formed

Due to the continued international growth of the exhibition and conference industry...

CGFA AS\$6.5m Eneabba deal

Consolidated Gold Fields Australia (CGFA) and its 62 per cent-owned Associated Minerals...

Airfix sees upturn

Airfix Industries has a satisfactory order book and those subsidiaries with production are improving their performances...

Phoenix life fund rises to £17.6m

A 17 per cent rise from £15.7m to £17.6m in the value of its managed life fund the Wealth Assured Fund over the year to March 31, 1979...

Utac formed as holding company

Utac has been formed as the new holding company for four British-based companies - OBL International, Stereogram Productions, Charles King and Link-Hampson...

Share information service

The following securities have been added to the Share Information Service appearing in the Financial Times...

THE HOKKAIDO TAKUSHOKU BANK LIMITED ("TAKUGIN") US \$15,000,000 NEGOTIABLE FLOATING RATE CERTIFICATES OF DEPOSIT...

CALIFORNIA REAL ESTATE OPPORTUNITY Mr. Sheldon Allman is in London through August 24th with a portfolio of California Real Estate Investments...

Blackman & Conrad recovery continues THE current year at Blackman and Conrad should be one of steady progress overshadowed by the continuing high level of interest rates and other external factors...

The Tokai Bank Ltd Negotiable Floating Rate U.S. Dollar Certificates of Deposit Series A Maturity date 20 August 1980...

CONTRACTS AND TENDERS NOTICE FOR INTERNATIONAL TENDERS The Director General of the TOGO Postal & Telecommunications Board is calling for international tenders for the extension and modernisation of the aerial and underground network of Lome...

YEMEN ARAB REPUBLIC MINISTRY OF MUNICIPALITIES SANAA REFUSE DISPOSAL PROJECT CONTRACT R 3 SUPPLY AND INSTALLATION OF WORKSHOP EQUIPMENT Tenders are invited from reputable and established firms for the supply and installation of equipment required by the Ministry of Municipalities as part of the SANAA Refuse Disposal Project...

WANGSWORTH CORPORATION INSTALLATION OF HEATING AND PLUMBING AT SAVONA ESTATE, S.W.11 (TIGEMORE HOUSE) Contractors wishing to be considered for selection to tender for the installation of heating and plumbing to 68 dwellings at Savona Estate, Battersea, S.W.11, should submit names to the Director of Administration, The Town Hall, Wandsworth High Street, London SW18 2PU, by 10 a.m. on 31st August, 1979...

CONTRACTS AND TENDERS Advertisements appear every Monday Rate: £17.50 per single col. cm. Minimum 3 cm.

City of London Courier Service Ltd. City-01-251 1333 and 1330, 01-253 9548 SE1 area-01-433 9833 Personal Courier Delivery of your vital documents

EUROBONDS The Association of International Bond Dealers Quotations and yields are shown monthly in the Financial Times. It will be published in a short-page format on the following dates in the next 12 months...

BASE LENDING RATES Table listing various banks and their rates, including A.B.N. Bank, Allied Irish Bank Ltd., Amro Bank, American Express Bk., etc.

Pending dividends Table listing companies and their dividend amounts, including Assoc. Dairies, BICC, BSC, Bechtel, etc.

ALLEN HARVEY & ROSS INVESTMENT MANAGEMENT LTD. 45 Cannon Row, London EC3N 3AB. Tel. 01-523 6314. Index Guide as at August 16, 1979. Capital Fixed Interest Portfolio 117.50. Income Fixed Interest Portfolio 105.00.

LOCAL AUTHORITY BOND TABLE Authority Interest Rate Minimum of (telephone number as in parentheses) £ £ Year

FINANCE FOR INDUSTRY TERM DEPOSITS Deposits of £1,000-£50,000 accepted for fixed terms of 3-10 years. Interest paid gross, half-yearly. Rates for deposits received not later than 31.8.79.

Companies and Markets

INTERNATIONAL COMPANIES and FINANCE

RECENT ISSUES

Wheelock earns and pays more

BY PHILIP BOWRING IN HONG KONG

WHELOCK MARDEN and Co., the large Hong Kong property, shipping and retail group, reported net profit before extraordinary items of 42 per cent to HK\$122.3m (US\$27.7m) in the year ending March 31. The final dividend has been increased to 15 cents to 15 cents making a total for the year, inclusive of a 2.5 cents bonus dividend, of 17.5 cents against 17 cents for 1978. Extraordinary gains of HK\$2.43m were also recorded, down from the previous year's HK\$10.3m.

Exxon delays decision on Reliance Electric offer

BY STEWART FLEMING IN NEW YORK

EXXON CORPORATION is delaying a decision on whether to proceed with the purchase of Reliance Electric shares following a ruling by a U.S. District Court Judge requiring Exxon to maintain the company as a separate entity. But Exxon, the largest U.S. oil company, stressed that it was not terminating its tender offer and said that it would be willing to accept an alternative arrangement to meet the Court's conditions. The Court has ordered another hearing on these alternatives for August 27.

Surprise terms for Argentinian loan

By Rosemary Burr

ARGENTINA'S oil firm Yacimientos Petroliferos Fiscales (YPF) has asked a group of six banks to raise a ten-year \$250m loan. The spread is 1 per cent throughout with a five years' grace period. The terms on which the mandate was awarded have come as a surprise to most bankers in the market. Recently the Argentinians have been pressing banks to extend the maturities of the country's credits to 15 years. However, market resistance to 15-year Argentinian paper and the growing difficulty for banks of placing even 12-year credits is believed to be behind this latest move back to shorter maturities.

New bank for Malaysia

BY WONG SULONG IN KUALA LUMPUR

THE MALAYSIAN Government has formed a bank to finance long term, high technology projects, which Malaysian banks and financial institutions are not in a position to undertake. Called the Industrial Development Bank of Malaysia it is wholly Government-owned, and has an authorised capital of 100m ringgit (\$46m).

Jump in export demand at GHH

BY JONATHAN CARR IN BONN

GUTEHOFFNUNGSHUETTE ARTENVEREIN (GHH), the big West German mechanical engineering group, increased profits in the 1978-79 business year to June 30, and proposes to pay an unchanged 12 per cent dividend. The company gives no precise profit figures in its latest letter to shareholders—and notes that costs and earnings levels differed from one sector of group activities to another.

ANZ scheme turned down

BY JAMES FORTH IN SYDNEY

THE PROPOSED merger between the ANZ banking group and the Bank of Adelaide has run into a hitch. The Reserve Bank recommended a merger for the Bank of Adelaide, the smallest of the major trading banks, earlier this year, because of financial difficulties then experienced by its finance company subsidiary, Finance Corporation of Australia. A financial package, involving an injection of funds into the Adelaide was organised until the merger could be effected.

Microdata offer commences

BY JONATHAN CARR IN BONN

ST. LOUIS — McDonnell Douglas Corporation said its MICD Holding has begun its offer to acquire Microdata Corporation at \$32 a share. McDonnell will purchase all shares if at least 90 per cent of Microdata common is tendered. If more than 50 per cent but less than 90 per cent is tendered, at least 45 per cent of those shares will be purchased, although McDonnell does not intend to purchase more than 50 per cent of such shares.

Record result at Ivaco

BY JONATHAN CARR IN BONN

MONTREAL — Ivaco, reported record sales and earnings for the second quarter and first half and said it has completed its offer to purchase Atlantic Steel Company of Atlanta, Georgia. The Maricville, Quebec, integrated steel producer said second quarter earnings jumped 93 per cent to C\$10.8m or C\$1.12 a share, from C\$5.6m, or 57 cents a share, a year earlier, on a 56 per cent sales gain to C\$195.8m from C\$97.3m.

CURRENCIES, MONEY and GOLD

Inflationary fears increase

BY COLIN MILLHAM

Inflationary trends continue to build up around the world according to the International Monetary Fund in its latest statistical summary. It is the first of the times that inflation has increased significantly in western industrialised nations over the last few months. The U.S. inflation rate, over 10 per cent with the UK retail price index showing an annual rise of 15.6 per cent in July. Even Germany and Switzerland are suffering from rates above 4 per cent, which seems low by our standards, but as recently as 1977, German inflation in consumer prices was only 2.9 per cent.

Meanwhile the gold market seems to be totally confused. Last week the metal moved sharply between just over \$320 and nearly \$305, as fears about the world's economies continued to encourage buying, while at the same time it was suggested that gold may have reached its peak for the time being. In its latest monthly report the South African Chamber of Mines forecast a possible fall to \$250 this year. This brought no comfort to a market that was already hectic and very nervous.

CURRENCY RATES

Table with columns: Country, Rate, Special Drawing Rights, European Currency Unit. Includes UK, US, France, Germany, etc.

OTHER MARKETS

Table with columns: Country, Rate, Note Rates. Includes Argentina, Australia, Canada, etc.

THE DOLLAR SPOT AND FORWARD

Table with columns: Aug 17, Rate, One month, Three months, Six months. Includes UK, Canada, etc.

THE POUND SPOT AND FORWARD

Table with columns: Aug 17, Rate, One month, Three months, Six months. Includes U.S., Canada, etc.

EXCHANGE CROSS RATES

Table with columns: Country, Rate. Includes Deutschmark, Spanish Yen, etc.

LONDON MONEY RATES

Table with columns: Aug 17, Rate, Local Authority deposits, etc. Includes Sterling, etc.

MONEY RATES

Table with columns: New York, Germany, France, Japan. Includes Prime Rate, Discount Rate, etc.

NEW YORK

Table with columns: Prime Rate, Discount Rate, etc. Includes Treasury Bills, etc.

FRANCE

Table with columns: Discount Rate, Overnight Rate, etc. Includes Treasury Bills, etc.

JAPAN

Table with columns: Discount Rate, Overnight Rate, etc. Includes Treasury Bills, etc.

EQUITIES

Table with columns: Issue Price, 1978 High, 1978 Low, Stock, etc. Includes Arrow Chemicals, etc.

FIXED INTEREST STOCKS

Table with columns: Issue Price, 1978 High, 1978 Low, Stock, etc. Includes Aurore 8 1/2 Conv. Cum. Pref., etc.

"RIGHTS" OFFERS

Table with columns: Issue Price, 1978 High, 1978 Low, Stock, etc. Includes Abwood Machine Tools, etc.

Renunciation date usually last day for dealing in stamp duty. Figures based on prospectus estimates. Assumed dividend and yield. Forecast dividend cover based on previous year's earnings. Dividend and yield based on prospectus or other official estimates for 1978. Crossed figures assumed. Crossed figures assumed for conversion of shares not now ranking for dividend or ranking only for restricted dividends. Placing price to public. Pence unless otherwise indicated. Issued by lender. Offered to holders of ordinary shares as a "rights". Issued by way of capitalisation. Introduced. Issued in connection with reorganisation, merger or takeover. Issued to former preference holders. Allotment letters (only paid). Provisional or partly-paid allotment letters. With warrants. Unlisted security. Issued as units comprising 2 income shares and 10 Capital shares at 125p per unit.

Public Works Loan Board rates

Table with columns: Years, Quota loans repaid, Non-quota loans A repaid, etc. Includes Up to 5, Over 5, up to 10, etc.

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Fixed instalments in principal. ‡ Repayment by half-yearly annuity. § Equal credit half-yearly payments to include principal and interest. ¶ With warrants. †† With half-yearly payments of interest only.

Stenhouse Holdings Limited advertisement. Includes text: 'Dear Shareholder, A joint announcement was made at close of business on Friday, 17th August by Stenhouse Holdings Limited ("Stenhouse") and The Continental Corporation ("Continental")... THE PURCHASE WILL TAKE PLACE IN THE OPEN MARKET, COMMENCING WHEN THE STOCK EXCHANGE OPENS FOR BUSINESS ON MONDAY, 20TH AUGUST 1979.'

Assistance business brought into the net

BY OUR INSURANCE CORRESPONDENT

BRITISH INSURERS in the past decade have had to accept an increasing degree of supervision...

In July, 1973 an EEC directive, known as the non-life establishment directive, which deals with the co-ordination of laws...

From time to time the EEC supervisory authorities discuss how directives are operating and whether amendments are needed...

This new class would include what is called "assistance" business so that the organisations providing assistance services would be brought into the insurance supervisory net...

Perhaps the best example here is the kind of protection provided principally by the AA and RAC in respect of breakdown from the motorist's point of view...

But the essential difference between AA/RAC schemes and comprehensive motor and household policies is that the former are run by two motoring organisations...

In Britain there are a number of non-insurance organisations providing "assistance" for motorists and others...

Senior post at NatWest

Mr. Ben Boulton, Southampton and Channel Islands area director of NATIONAL WESTMINSTER BANK...

Mr. T. J. Sanderson has been appointed a director of TULLETT AND RILEY INTERNATIONAL...

Mr. Bryan Litherland has been appointed group accountant for the BRYROD HIRE GROUP.

Mr. Peter Williams has been appointed general marketing manager responsible for micrographic and business communication products...

Mr. T. J. Donevan and Mr. A. J. Ramsdale will join the partnership of COLBURN, FRENCH AND KNEEN...

Mr. Phillip M. Wilson, senior vice president of BANKERS TRUST COMPANY, has been appointed to head its newly formed marketing group.

Mr. F. W. Anderson has been appointed chief insurance manager of BRITISH AEROSPACE and becomes a director of British Aerospace (Insurance Brokers).

Mr. Michael Ledwith has joined DIETHELM METALS (UK) as managing director. Previously he was director and commercial manager BICC Metals.

Mr. W. H. Forsay has become chief general manager of THE ROYAL LONDON MUTUAL INSURANCE SOCIETY...

Mr. Derek G. Hickman is to join the TOLEMAN'S HOLDING COMPANY as managing director of the truck division from August 20.

Mr. Archie Thomas has been appointed director, FINANCIAL CASH in succession to Mr. Bill Richardson, who has retired.

Mr. James S. Lyon has been appointed a director and chief executive of MIL, of Wolverhampton.

Mr. Paddy Lynch, an executive director of the SOLICITORS LAW STATIONERY SOCIETY, has retired.

Mr. Philippe Brugère-Trelat has been appointed a director of WORMS (UK), a subsidiary of Banque Worms, Paris.

Mr. John G. Chaplain has retired from BROWN SHIPLEY INTERNATIONAL SERVICES for health reasons and is succeeded as chairman of the underwriting division by Mr. A. C. Yeo.

Mr. Paddy Lynch, an executive director of the SOLICITORS LAW STATIONERY SOCIETY, has retired.

Indices NEW YORK - DOW JONES, EUROPE, AMSTERDAM, BRUSSELS/LUXEMBOURG, SPAIN, TOKYO, STOCKHOLM, VIENNA, GERMANY, SWITZERLAND, AUSTRALIA, MILAN, OSLO, PARIS. Includes various stock market indices and prices.

WALL STREET

NEW YORK Stock market listing with columns for High, Low, Stock, and Aug. 17 prices.

Miners reject a small change

DERBYSHIRE'S 12,000 miners have declined a National Coal Board offer to adjust their wages...

Mr. Peter Heathfield, Derbyshire secretary of the National Union of Mineworkers, explained: "The offer is a change in their pockets for things like collections and raffles."

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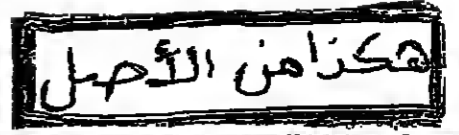
DERBYSHIRE'S 12,000 miners have declined a National Coal Board offer to adjust their wages...

WALL STREET

Continuation of Wall Street stock market listing with columns for High, Low, Stock, and Aug. 17 prices.

Companies and Markets

INTERNATIONAL CAPITAL MARKETS



INTERNATIONAL BONDS

A jaded view of the dollar

BY FRANCIS GHILES

"NEVER have so many done so little for so few" was how Hill Samuel chose to sum up the situation in the Eurobond market last Friday...

The greater their reservations about the dollar, the stronger the rally in the New York market that is needed to win them over.

A further factor which tends to push up the offered yields on Eurobond issues is the volume of unold Eurobonds held by major houses in their inventories.

Table with columns: June 14, July 2, July 16, Aug. 6, Aug. 16. Rows include GMAC 9 1/2 per cent Eurobond of July 1, 1986 and GMAC 8 1/2 per cent U.S. domestic bond of June 15, 1985.

two markets will continue. There appears to have been switching last week from Yankee bonds into Eurobonds, particularly where French names are concerned.

Investors are staying away from the market convinced that U.S. short-term interest rates still have some way to go before reaching their peak.

The two markets diverged again at the beginning of July and have been doing so, again for the past two weeks.

Non-U.S. investors also take a less sanguine view than U.S. residents about the likely impact of the coming recession.

The West German Capital Markets Sub-Committee meets today. It is not expected to agree to a new issue calendar more than DM 400-500m for the coming four weeks.

CURRENT INTERNATIONAL BOND ISSUES

Table with columns: Borrowers, Amount, Maturity, Av. life, Coupon, Price, Lead manager, Offer yield. Rows include U.S. DOLLARS, D-MARKS, SWISS FRANCIS, CANADIAN DOLLARS, and KUWAITI DINARS.

INTERNATIONAL LOANS

Syndicated lending vindicated

BY NICHOLAS COLCHESTER

IS A syndicated loan still a paying proposition? The latest analysis from Euromoney shows that in the first six months of 1979 the average spread on new loans was 0.866 per cent...

On this very general basis the answer to the opening question is: yes. Two developments have helped. The former shows that the return on equity is directly proportional to the gearing ratio adopted by banks.

Euromoney's analysis shows banks that a loan to Electricite de France was riskless then a spread of 1 per cent would produce a pre-tax return on capital of 24 per cent.

The reason for the trend towards longer maturities is probably that the cost to the lender of this concession is far less tangible than a spread reduction.

But by and large, because of its "roll-over" nature, a floating rate syndicated loan is an extensive financing instrument to which new sections can be bolted on at will.

U.S. BONDS BY STEWART FLEMING

Pleased with Mr. Volcker

THE Federal Reserve Board fired another round at the inflationary dragon last week, tightening credit and raising its discount rate to a new record of 10 1/2 per cent...

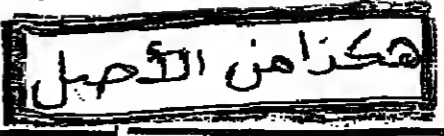
appointed the financial markets, which had so warmly welcomed his appointment, it is more than likely that the dollar would have come under renewed pressure.

There are many on Wall Street who fear that further steps will be needed. Since the end of June, many short term interest rates have, it is true, risen almost a full percentage point.

FT INTERNATIONAL BOND SERVICE

Large table with multiple columns: U.S. DOLLAR STRAIGHTS, YEN STRAIGHTS, OTHER STRAIGHTS, FLUATING RATE NOTES, DELTA/TAU MARK STRAIGHTS, SWISS FRANC STRAIGHTS, CONVERTIBLE BONDS. Includes various bond listings with prices and yields.

BRAZIL The outlook for the 1980's RIO DE JANEIRO-OCTOBER 17 & 18 1979. H.E. Minister Karlos Rischbieter, Minister of Finance, Brazil will give the keynote address at this second conference to be arranged by the Financial Times with Varig Brazilian Airlines in Rio de Janeiro on 17 and 18 October 1979.



AUTHORISED UNIT TRUSTS

Table listing various authorized unit trusts with columns for name, manager, and other details.

Table listing insurance and property bonds, including company names and financial details.

Table listing offshore and overseas funds, including fund names and performance metrics.

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NOTES: Prices do not include 5 pence commission, except where indicated, and are in pence unless otherwise indicated.

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Stewart Wrigtonson International Insurance Brokers for Surety & Specie

INDUSTRIALS—Continued

Table of industrial stocks including Johnson & Johnson, Amgen, and various pharmaceutical and technology companies.

INSURANCE—Continued

Table of insurance companies such as Lloyds, Zurich, and various regional insurers.

PROPERTY—Continued

Table of real estate and property-related companies and funds.

INVESTMENT TRUSTS—Cont.

Table of investment trusts and funds, including various equity and bond funds.

FINANCE, LAND

Table of financial and land-related companies and funds.

MINES—Continued

Table of mining companies and their stock prices.

OVERSEAS TRADERS

Table of overseas trading companies and their stock prices.

TEAS

Table of tea companies and their stock prices.

INDIA AND BANGLADESH

Table of Indian and Bangladeshi companies and their stock prices.

SRI LANKA

Table of Sri Lankan companies and their stock prices.

AFRICA

Table of African companies and their stock prices.

LEISURE

Table of leisure and entertainment companies.

MOTORS, AIRCRAFT TRADES

Table of motor and aircraft trade companies.

Commercial Vehicles

Table of commercial vehicle companies.

Components

Table of component companies.

Garages and Distributors

Table of garage and distributor companies.

NEWSPAPERS, PUBLISHERS

Table of newspaper and publishing companies.

PAPER, PRINTING

Table of paper and printing companies.

PROPERTY

Table of property-related companies.

SHIPPING

Table of shipping companies.

SHOES AND LEATHER

Table of shoe and leather companies.

SOUTH AFRICANS

Table of South African companies.

TEXTILES

Table of textile companies.

TOBACCO

Table of tobacco companies.

TRUSTS, FINANCE, LAND

Table of trusts, finance, and land companies.

AUSTRALIAN

Table of Australian companies and their stock prices.

TINS

Table of tin companies and their stock prices.

COPPER

Table of copper companies and their stock prices.

MISCELLANEOUS

Table of miscellaneous companies and their stock prices.

GOLDS EX-GRANDIS

Table of gold companies and their stock prices.

NOTES

Notes and financial information regarding company performance and market conditions.

INSURANCE

Table of insurance companies and their stock prices.

REGIONAL MARKETS

Table of regional market data and stock prices.

DIAMOND AND PLATINUM

Table of diamond and platinum companies and their stock prices.

CENTRAL AFRICAN

Table of Central African companies and their stock prices.



Israel-U.S. near open breach

ISRAEL AND the United States appeared yesterday to be close to an open breach on the question of rights for the Palestinians on the West Bank. There were suggestions in Tel Aviv that the tension might be eased only through a meeting between President Carter and Mr. Menahem Begin, the Israeli Prime Minister, possibly with the participation of President Anwar Sadat of Egypt. The Israeli Cabinet yesterday hiccoked Mr. Begin's rejection of any American attempt to introduce a new resolution in the United Nations recognising Palestinian rights. Mr. Robert Strauss, President Carter's Middle East envoy, failed to budge Israel on the issue in a second meeting with Mr. Begin last night. Mr. Strauss arrived in Tel Aviv earlier from talks with Mr. Sadat in Cairo, apparently having met a cool reception to the U.S. proposal. After two hours of apparently tough talks here, Mr. Strauss refused to make any reference to Israeli threats to quit the current Palestinian autonomy talks if the U.S. tabled its own resolution or backed any other resolution to give more recognition to Palestinian rights. Mr. Strauss said that the reservations voiced by both Israel and Egypt would be taken into consideration when Washington makes its decision. Mr. Strauss met Mr. Begin and other Ministers on Friday before going to Cairo for talks with Egyptian leaders. Tripartite working sub-committees resumed discussions on Palestinian self-rule yesterday, but talks in Alexandria were expected to make little substantive progress. It is because of the slow progress in these talks, which have concentrated on procedural issues, that the Americans are

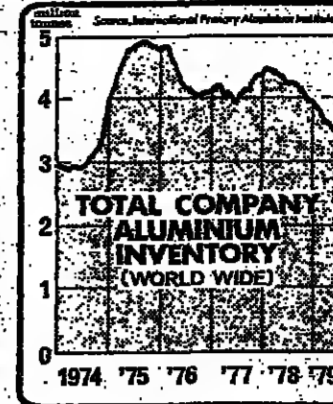
Brussels expenses rules change sought

THE European Community's auditing office wants clearer rules established for expenditure by the top men at the Brussels Commission. It also notes that other Community bodies may need firmer expenditure guidelines. This is the main outcome of a report prepared for the European Parliament by the auditors following a detailed examination of Commission expenditure in 1977 and 1978. The Parliament will have the report next month, but the full text has emerged in Bonn. However, both Mr. Sadat and Dr. Khalil have insisted that PLO involvement at this stage may hinder rather than advance the complex autonomy talks. David Buchan in Washington writes: The present American policy of ostracising the Palestine Liberation Organisation was "ridiculous," said Mr. Andrew Young, the U.S. Ambassador to the United Nations whose resignation was announced last week. He said it no longer made sense for the U.S. to refuse to talk to the PLO, when there was a possibility that the PLO might moderate its stand and come to recognise Israel's right to exist.

THE LEX COLUMN

Changing outlook for aluminium

European stocks of primary aluminium producers are currently at rock bottom levels. Last week a leading German producer was asking its main competitors to let it have stock and getting no help. Today, Pechiney Ugine Kuhlmann is pushing up its price by 5 per cent. Vereinigte Aluminium Werke, which made heavy trading losses last year, now says that capacity is insufficient to meet demand and that it is currently operating in the black. Despite this, producers are today rather more cautious about the medium-term outlook than they were at the start of the year. And last week's interim figures for the two quoted UK companies showed that there is going to be no profits bonanza for them. The current shortage of aluminium supply is a direct result of over-expansion in the 1950s and 1960s when the U.S. industry, for example, expanded its capacity eightfold. Companies burnt their fingers so badly in the aftermath of that surge that for the last several years smelting capacity has been rising at a much slower pace than the demand for primary metal. In addition, soaring fuel costs have left an extra dent on the supply side about a third of Alcan's refining capacity is currently mothballed—while a strike at Alcan Canada's Quebec smelters has taken out the equivalent of nearly a tenth of the North American market.

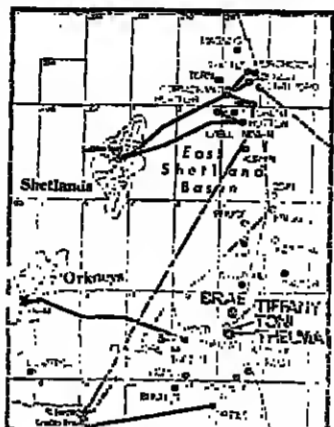


of those British Aluminium, rather smaller company in terms of assets and sales. Alcan has to carry financing costs for a heavy investment programme, which should start to pay off in the next few years. Smoother production flows in its Lynchburg smelter plus an increase in the inadequate returns produced by its marolling mills would together make the investment look very different. By 1982 Alcan hope to be getting close to its objective of a 10 per cent per interest return on assets employed, calculated on a current cost basis. This implies a belief that a very substantial improvement in its current performance is feasible.

Hanson/Lindisfarne In many takeover battles the initial offer is just a starting shot. But Hanson Trust's £250 bid for Lindisfarne does not fit this pattern. Hanson has offered 135p per share for Lindisfarne (a 17 per cent premium on the pre-bid price) and has quite firmly stated that it has no intention of increasing the offer. The takeover battle would seem to be a binding statement. Lindisfarne share are currently 6p above the offer price. Hanson will offer pay off though Hanson was able to pick up 10m shares in the market last week taking its stake to nearly 15 per cent. This is not the first time Hanson has snuffed around Lindisfarne. In October 1977 it offered 135p per share (a 10 per cent premium on Lindisfarne's share price) but was refused. Lindisfarne doubled its dividend and Hanson retired. The share of the UK market for rolled products rose from a third to about two-fifths last year. In profit terms, the two quoted UK companies expect that the current six months will show some improvement on a strike-hit first half. But British Aluminium, which was probably the most profitable aluminium company in Europe last year, will be pushed to match its overall 1978 outturn of £25.1m this time round. And Alcan (UK) is not likely to match 1978's £11.6m pre-tax. In current cost terms, it is now making a sizeable loss, which explains why its shares yield roughly two-fifths more than its rivals'. The outlook for 1980 is not especially inspiring for either company. But they are both hopeful about their potential for a longer view. Alcan (UK), in particular ought to have scope to beef up its returns, which are way below

Phillips plans T-block oil scheme

THE PHILLIPS offshore consortium is preparing the way for the development of three neighbouring oilfields in the North Sea's UK sector. If the work goes ahead—the decision has still to be taken—it could result in one of the most ambitious oil and gas production systems so far tackled in British waters. The fields concerned are Tiffany, Toni and Thelma. In the so-called "T-block," 16/17, some 150 miles north-east of Aberdeen. So far eight wells have been drilled in the block. The group already has a fairly good idea about the geology of Toni. Two new wells, one each on Tiffany and Thelma, are scheduled to be sunk later this year followed by a further well on each next year. The wells are used primarily to appraise the extent and potential recoverable reserves of the two fields. If the drilling is successful the wells will be used later to produce oil and gas from the surrounding portions of the reservoirs. To aid this programme, Phillips and its partners—Petro



3 miles to the south. At least one platform will have to be a fixed structure in order to carry the producing equipment needed to handle both oil and gas. The group may decide to develop the fields in stages, as Phillips built up the production network from fields around Ekofisk in the North Sea's Norwegian sector. On this basis, Tiffany could well be the first of the "T-block" trio to be exploited, perhaps coming on stream in 1983. Although Toni has an advantage over the other two; a lower quantity of associated gas. Any development scheme for Toni and Thelma would almost certainly have to have some provision for collecting and transporting such gas ashore. The Phillips group is watching with interest Mobil and British Gas Corporation studies into a possible gas gathering pipeline which could link fields like Toni and Thelma to the British Gas terminal at St. Fergus, Scotland.

The auditors say that they have made criticisms only where firm rules have clearly been overlooked. But they also note that few rules on entertainment and travel expenditure exist anyway. On one key point involving so-called "representational expenses"—that is meals, receptions, gifts, etc.—the report says a normal audit is hard if not impossible to carry out, because there are no rules saying what expenses can be drawn from general funds and what must be booked to individual commissioners. The report says that in 1978 Mr. Roy Jenkins, the Commission President, and his 12 Commissioners, had individual representation allowances amounting in all to 9.1m Belgian francs (£140,000) (compared with allowances totalling 7.8m Belgian francs in 1977).

Four commissioners overspent their 1978 individual allowances, others underspent so that the 13 together were booked for 9.38m francs. Also, a global sum of 2.3m francs is recorded for entertainment by the Commission as a whole (926,000 francs of it for restaurant meals) bringing a grand total of 11.7m francs. The report notes that business travel costs totalled 30.3m francs last year and that travel "expenses totalling 3.5m francs, spent in 1978, were incorrectly put down under 1979." It says that the Commission's own regulations on use of air taxis (small aircraft for taking Commissioners, for example, from Brussels to Luxembourg) were not always observed and the relatively high expenditure here was not always justified.

Weather

UK TODAY DRY AND BRIGHT, becoming cloudy with rain. London, S and N England, E Anglia, Midlands, Channel Is. Mainly dry with bright or sunny intervals, becoming cloudy with rain. Wind light, becoming strong. Max. 17C (63F). S. W. England, South Wales Cloudy with heavy rain, clearing later with scattered showers. Wind fresh or strong. Max. 17C (63F). N. Wales, N.W. England, Lakes, S.W. Scotland Cloudy with rain at times becoming clearer with showers. Max. 17C (63F). N. E. England, Borders Bright or sunny intervals, becoming cloudy with rain at times. Max. 16C (61F). E. Scotland, Highlands, Ulster Sunny intervals and scattered showers. Wind light and variable. Max. 15C (59F). Outlook: Showers and bright intervals.

WORLDWIDE weather table with columns for City, Y day (C/F), and Y day (C/F). Cities listed include Algeria, Amman, Athens, Beirut, Barcelona, Bogota, Bombay, Brno, Bucharest, Cagliari, Calcutta, Caracas, Casablanca, Chicago, Copenhagen, Curitiba, Dublin, Edinburgh, Frankfurt, Genova, Gibraltar, Glasgow, Harbin, Helsinki, Hong Kong, Indianapolis, Istanbul, Jacksonville, Lima, London, Lyons, Madrid, Manila, Mexico City, Montreal, Moscow, Ottawa, Panama, Paris, Perth, Prague, Rio de Janeiro, Rome, Santiago, Sao Paulo, Seoul, Singapore, Stockholm, Taipei, Tokyo, Toronto, Warsaw, Wellington, Wroclaw, Zurich.

Vote may threaten Callaghan

MR. JAMES CALLAGHAN'S hopes of preventing controversial amendments to the Labour Party's constitution from being decided at the annual conference might be thwarted by the trade union vote. In spite of general sympathy among the union hierarchy for Mr. Callaghan's fear of a bruising public debate, many union leaders believe that the debate cannot and should not be sidestepped. A decision on compulsory re-selection of Labour's Parliamentary candidates, including sitting MPs, is seen by some union officials as virtually certain. The fate of other proposals, notably that giving the party's national executive committee final control over the manifesto, might depend on a meeting of trade union general secretaries on the eve of the Trades Union Congress in Blackpool in a fortnight. Immediately after Congress, the nine unions that have called for the reopening of the inquiry into the party's structure and finances will meet the executive committee of the national executive. That is to discuss how the year-long inquiry should proceed. Leaders of the big unions have yet to decide whether to give their delegates to the Labour conference in October. Mr. Callaghan, as leader of the Parliamentary Labour Party, has announced to the national executive to change the mind and not all the issues in a reformed committee of inquiry. He has asked the unions to support him. The Transport Workers, with the highest block vote of the conference, appears anxious to have the issues brought into the open this year rather than postponed until next. Mr. Moss Evans, general secretary, is one of the nine union leaders who have supported a thorough inquiry, but his executive and delegation may insist on a vote, at least on compulsory re-selection. The battle for the votes of the Amalgamated Union of Engineering Workers, which threw the scales last year, might be close.

Unions seek tougher TUC line

LEFT-WING trades unions are seeking to convert the TUC's propaganda campaign against the Government's economic policies into action. They will urge delegates to the Trades Union Congress in two weeks' time to escalate the protest to include marches and other demonstrations. Amendments to congress motions published today show there has been a considerable hardening of the unions' mood in the wake of Ministers' decisions on public spending, jobs and public ownership. Mass demonstrations around the country are called for by the Furniture, Timber and Allied Trades Union in an amendment to the TUC General Council's key motion for the economic debate. The Association of Scientific, Technical and Managerial Staffs wants the TUC to organise a national day of action "as soon as possible" in protest at expenditure cuts. Even the Right-wing-led engineering section of the Amalgamated Union of Engineering Workers, which has already submitted a hard-line motion on free collective bargaining, has asked for a "national campaign" to secure a 35-hour week for manual workers. The traditional defender of incomes policy at congress, the National and Local Government Officers' Association, this year qualifies its stance by agreeing that there should be free bargaining "until such time as the possibilities arise for a planned economy."

Tax changes in next Budget

THE GOVERNMENT'S review of personal and capital taxation should be finished in time to announce significant changes in next year's Budget. If all goes according to plan, the Chancellor should be able to use the Budget to clarify a number of points now surrounded by uncertainty, such as the Government's position on inflation accounting and the general question of stock relief. He may also say how he intends changing aspects of personal taxation, like the treatment of fringe benefits. As a result, next year's Finance Bill is likely to be a much more wide-ranging piece of legislation than this year's Act which affected the rates, rather than the structure of taxation. The weekend reaction to what may well be a series of consultations on tax changes suggests that the Government may face considerable opposition to some of its proposals. Mr. Terry Duffy, the Engineering Union President, warned that the unions might react violently to Government plans for a crackdown on perks. The consultative process just begun on fringe benefits is one of a number of studies into aspects of both personal and corporate taxation being carried out by the Treasury. Even more fundamental in its impact could be the review of company tax, foreshadowed by Sir Geoffrey Howe, the Chancellor, in his June Budget speech, when he indicated that the Government would be considering the whole question of inflation accounting and company taxation and that the Inland Revenue would consult the accountancy profession. The review of corporation tax, and the treatment of stock relief, starts from the basic premise that the present way of dealing with stock appreciation—introduced in 1974 as a temporary measure—is unsatisfactory.

Engineering employers sceptical

large number of cases. "Nevertheless, the federation believes that the willingness of unions and their members reasonably to operate this more limited amendment should be tested." The code of conduct on picketing suggested by the Government was welcome, but should be drawn up by the Employment Secretary and Home Office, not by the Advisory Conciliation and Arbitration Service. On the closed shop the federation says it has no policy of favouring the practice, but takes a "pragmatic" line. Federation members had usually been able to secure reasonable safeguards for existing employees who refused to join a union. A key passage in the document says: "The federation has thus tended to regard the admitted problems associated with the closed shop as generally susceptible to industrial relations solutions rather than for legal determination. This accounts for the federation's reserved approach to some of the proposals." First protection should be given to those who objected to joining any trade union, not those who objected to a particular union. This was essential, the federation said, if "excessive litigation, inter-union con-

The more you give to the RNLI the less you give to the taxman.

Make a large donation to the RNLI and there are ways you can make the taxman more charitable. 1. Capital Transfer Tax. You don't need to pay capital transfer tax on a gift to the RNLI. However, if you die within a year of donating the gift, capital transfer tax is payable only on the amount by which your total gifts to charities in that year exceed £100,000. 2. Capital Gains Tax. Transfer property or shares to the RNLI and there's no capital gains tax payable on the increase in the value of these assets since you bought them. 3. Income Tax. If you enter into an agreement to make an annual donation to the RNLI for at least six years, we can recover the income tax you have already paid (at the standard rate) on the amount of your donation. Remember, the RNLI is entirely supported by voluntary contributions and we desperately need to buy more lifeboats which are now costing over £250,000 each. For more information contact: The Director, RNLI, West Quay Rd., Poole, Dorset BH15 1JZ. Over 100,000 people would have been lost without us. RNLI

